FOREST CITY ENTERPRISES INC
Form 10-Q
September 10, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT Of 1934**

For the quarterly period ended July 31, 2007

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT Of 1934**

For the transition period from__________ to __________

Commission file number 1-4372

FOREST CITY ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Ohio	34-0863886
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Terminal Tower Suite 1100	50 Public Square Cleveland, Ohio	44113
(Address of principal executive offices)		(Zip Code)

Registrant s telephone number, including area code 216-621-6060

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act: (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding, including unvested restricted stock, of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at September 6, 2007
Class A Common Stock, $.33 1/3 par value	77,979,200 shares
Class B Common Stock, $.33 1/3 par value	24,727,818 shares

Forest City Enterprises, Inc. and Subsidiaries
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Forest City Enterprises, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	July 31, 2007	January 31, 2007
	(in thousands)	
Assets		
Real Estate		
Completed rental properties	**$ 7,420,280**	$ 6,659,054
Projects under development	**1,064,854**	1,396,083
Land held for development or sale	**181,010**	174,136
Total Real Estate	**8,666,144**	8,229,273
Less accumulated depreciation	**(1,160,269)**	(1,085,978)
Real Estate, net	**7,505,875**	7,143,295
Cash and equivalents	**238,261**	254,213
Restricted cash	**365,300**	292,461
Notes and accounts receivable, net	**291,666**	287,615
Investments in and advances to affiliates	**413,427**	333,782
Other assets	**743,494**	670,238
Total Assets	**$ 9,558,023**	$ 8,981,604
Liabilities and Shareholders Equity		
Liabilities		
Mortgage debt, nonrecourse	**$ 5,552,364**	$ 5,338,372
Notes payable	**112,643**	96,127
Bank revolving credit facility	**235,000**	
Senior and subordinated debt	**886,900**	886,900
Accounts payable and accrued expenses	**832,283**	772,964
Deferred income taxes	**502,800**	486,329
Total Liabilities	**8,121,990**	7,580,692
Minority Interest	**375,478**	375,101
Commitments and Contingencies		
Company-Obligated Trust Preferred Securities		
Shareholders Equity		

Preferred stock without par value; 10,000,000 shares authorized; no shares issued		
Common stock $.33 1/3 par value		
Class A, 271,000,000 shares authorized; 77,533,064 and 76,692,955 shares issued and 77,525,199 and 76,628,006 shares outstanding, respectively	**25,845**	25,564
Class B, convertible, 56,000,000 shares authorized; 24,765,969 and 25,254,210 shares issued and outstanding, respectively; 26,257,961 issuable	**8,255**	8,418
	34,100	33,982
Additional paid-in capital	**243,209**	247,884
Retained earnings	**797,480**	762,062
Less treasury stock, at cost; 7,865 and 64,949 Class A shares, respectively	**(531)**	(3,449)
	1,074,258	1,040,479
Accumulated other comprehensive loss	**(13,703)**	(14,668)
Total Shareholders Equity	**1,060,555**	1,025,811
Total Liabilities and Shareholders Equity	**$ 9,558,023**	$ 8,981,604

The accompanying notes are an integral part of these consolidated financial statements.

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2007	2006	**2007**	2006
	(in thousands, except per share data)			
Revenues from real estate operations	**$287,586**	$250,829	**$ 555,951**	$ 512,564
Expenses				
Operating expenses	**177,186**	149,566	**345,778**	297,713
Depreciation and amortization	**55,741**	41,571	**115,528**	81,859
Provision for decline in real estate		1,923		1,923
	232,927	193,060	**461,306**	381,495
Interest expense	**(72,708)**	(71,692)	**(149,507)**	(137,288)
Amortization of mortgage procurement costs	**(2,839)**	(2,440)	**(5,403)**	(5,332)
Loss on early extinguishment of debt	**(1,640)**		**(4,184)**	(803)
Interest and other income	**23,423**	7,870	**34,822**	22,717
Equity in earnings of unconsolidated entities	**7,773**	6,310	**9,134**	6,689
Gain on disposition of other investments	**431**		**431**	
Earnings (loss) before income taxes	**9,099**	(2,183)	**(20,062)**	17,052
Income tax expense (benefit)				
Current	**1,771**	(5,860)	**79**	(6,217)
Deferred	**(2,380)**	2,181	**(14,728)**	9,685
	(609)	(3,679)	**(14,649)**	3,468
Earnings (loss) before minority interest and discontinued operations	**9,708**	1,496	**(5,413)**	13,584
Minority interest	**(5,519)**	(2,577)	**(8,067)**	(6,757)
Earnings (loss) from continuing operations	**4,189**	(1,081)	**(13,480)**	6,827
Discontinued operations, net of tax and minority interest				
Operating (loss) earnings from rental properties	**(3,596)**	2,415	**(3,108)**	1,562

Gain on disposition of rental properties	**67,182**	6,158	**67,182**	52,361
	63,586	8,573	**64,074**	53,923
Net earnings	**$ 67,775**	$ 7,492	**$ 50,594**	$ 60,750
Basic earnings per common share				
Earnings (loss) from continuing operations	**$ 0.04**	$ (0.01)	**$ (0.13)**	$ 0.07
Earnings from discontinued operations, net of tax and minority interest	**0.60**	0.08	**0.61**	0.53
Net earnings	**$ 0.64**	$ 0.07	**$ 0.48**	$ 0.60
Diluted earnings per common share				
Earnings (loss) from continuing operations	**$ 0.04**	$ (0.01)	**$ (0.13)**	$ 0.07
Earnings from discontinued operations, net of tax and minority interest	**0.59**	0.08	**0.61**	0.52
Net earnings	**$ 0.63**	$ 0.07	**$ 0.48**	$ 0.59

The accompanying notes are an integral part of these consolidated financial statements.

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended July 31,	
	2007	2006
	(in thousands)	
Net earnings	$67,775	$ 7,492
Other comprehensive income (loss), net of tax and minority interest:		
Unrealized net losses on investment securities	(115)	(49)
Change in unrealized net gains (losses) on interest rate derivative contracts	10,299	(4,994)
Other comprehensive income (loss), net of tax and minority interest	10,184	(5,043)
Comprehensive income	$77,959	$ 2,449

	Six Months Ended July 31,	
	2007	2006
	(in thousands)	
Net earnings	$50,594	$60,750
Other comprehensive income (loss), net of tax and minority interest:		
Unrealized net losses on investment securities	(156)	(82)
Change in unrealized net gains (losses) on interest rate derivative contracts	1,121	(4,727)
Other comprehensive income (loss), net of tax and minority interest	965	(4,809)
Comprehensive income	$51,559	$55,941

The accompanying notes are an integral part of these consolidated financial statements.

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Shareholders Equity
(Unaudited)

	Common Stock				Additional				Accumulated Other	
	Class A		Class B		Paid-In	Retained	Treasury Stock		Comprehensive (Loss)	
	Shares	Amount	Shares	Amount	Capital	Earnings	Shares	Amount	Income	Total
					(in thousands)					
Six Months Ended July 31, 2007										
Balances at January 31, 2007	**76,693**	**$25,564**	**25,254**	**$8,418**	**$247,884**	**$762,062**	**65**	**$(3,449)**	**$(14,668)**	**$1,025,811**
Net earnings						**50,594**				**50,594**
Cumulative effect of change in accounting for uncertain tax positions						**245**				**245**
Other comprehensive income, net of tax and minority interest									**965**	**965**
Dividends $.15 per share						**(15,421)**				**(15,421)**
Purchase of treasury stock							**50**	**(3,138)**		**(3,138)**
Conversion of Class B to Class A shares	**488**	**163**	**(488)**	**(163)**						
Exercise of stock options	**324**	**109**			**4,919**					**5,028**
Restricted stock granted out of treasury	**(107)**	**(36)**			**(6,020)**		**(107)**	**6,056**		
Restricted stock vested	**135**	**45**			**(45)**					
Stock-based compensation					**9,714**					**9,714**
Distribution of accumulated equity to minority					**(13,243)**					**(13,243)**

partners										
Balances at July 31, 2007	**77,533**	**$25,845**	**24,766**	**$8,255**	**$243,209**	**$797,480**	**8**	**$ (531)**	**$(13,703)**	**$1,060,555**
Six Months Ended July 31, 2006										
Balances at January 31, 2006	75,436	$25,146	26,149	$8,716	$247,926	$612,371		$	$ 223	$ 894,382
Net earnings						60,750				60,750
Other comprehensive loss, net of tax and minority interest									(4,809)	(4,809)
Dividends $.13 per share						(13,305)				(13,305)
Purchase of treasury stock							18	(826)		(826)
Conversion of Class B to Class A shares	348	116	(348)	(116)						
Exercise of stock options	110	36			713		(18)	826		1,575
Restricted stock vested	56	19			(19)					
Stock-based compensation					6,051					6,051
Balances at July 31, 2006	75,950	$25,317	25,801	$8,600	$254,671	$659,816		$	$ (4,586)	$ 943,818

The accompanying notes are an integral part of these consolidated financial statements.

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended July 31,	
	2007	2006
	(in thousands)	
Net earnings	**$ 50,594**	$ 60,750
Depreciation and amortization	**115,528**	81,859
Provision for decline in real estate		1,923
Amortization of mortgage procurement costs	**5,403**	5,332
Loss on early extinguishment of debt	**4,184**	803
Equity in earnings of unconsolidated entities	**(9,134)**	(6,689)
Other income net gain on sale of a development project	**(10,090)**	
Gain on disposition of other investments	**(431)**	
Deferred income taxes	**(14,728)**	9,685
Minority interest	**8,067**	6,757
Stock-based compensation	**6,077**	4,722
Amortization and mark to market adjustments of derivative instruments	**(3,622)**	5,579
Cash distributions from operations of unconsolidated entities	**14,820**	22,644
Non-cash operating expenses:		
Write-off of abandoned development projects	**5,654**	1,029
Discontinued operations:		
Depreciation and amortization	**1,934**	6,914
Amortization of mortgage procurement costs	**69**	318
Loss on early extinguishment of debt	**363**	
Gain on disposition of rental properties	**(106,318)**	(143,726)
Minority interest gain on disposition		58,393
Minority interest operating earnings		457
Deferred income taxes	**34,608**	33,252
Cost of sales of land included in projects under development and completed rental properties	**5,171**	16,874
Increase in land held for development or sale	**(9,214)**	(33,217)
Decrease in notes and accounts receivable	**245**	19,723
(Increase) decrease in other assets	**(2,115)**	7,494
Increase in restricted cash used for operating purposes	**(3,669)**	(139)
Decrease in accounts payable and accrued expenses	**(44,458)**	(30,832)
Net cash provided by operating activities	**$ 48,938**	$ 129,905

The accompanying notes are an integral part of these consolidated financial statements.

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended July 31,	
	2007	2006
	(in thousands)	
Cash flows from investing activities		
Capital expenditures	**$(729,643)**	$(363,952)
Payment of lease procurement costs and other assets	**(16,628)**	(14,082)
Increase in restricted cash used for capital expenditures	**(72,479)**	(162,969)
Proceeds from disposition of rental properties and a development project	**291,551**	128,455
Increase in investments in and advances to affiliates	**(37,342)**	(58,635)
Net cash used in investing activities	**(564,541)**	(471,183)
Cash flows from financing activities		
Borrowings on bank revolving credit facility	**409,000**	139,000
Payments on bank revolving credit facility	**(174,000)**	(82,500)
Proceeds from nonrecourse mortgage debt	**573,734**	414,496
Principal payments on nonrecourse mortgage debt	**(284,154)**	(243,406)
Proceeds from notes payable	**50,346**	984
Payments on notes payable	**(35,177)**	(24,356)
Change in restricted cash and book overdrafts	**(3,588)**	67,386
Payment of deferred financing costs	**(7,849)**	(9,429)
Purchase of treasury stock	**(3,138)**	(826)
Exercise of stock options	**5,028**	1,575
Distributions of accumulated equity to minority partners	**(13,243)**	
Dividends paid to shareholders	**(14,341)**	(12,235)
Decrease in minority interest	**(2,967)**	(9,465)
Net cash provided by financing activities	**499,651**	241,224
Net decrease in cash and equivalents	**(15,952)**	(100,054)
Cash and equivalents at beginning of period	**254,213**	254,734
Cash and equivalents at end of period	**$ 238,261**	$ 154,680

The accompanying notes are an integral part of these consolidated financial statements.

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Forest City Enterprises, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

Supplemental Non-Cash Disclosures:

The table below represents the effect of the following non-cash transactions for the six months ended July 31, 2007 and 2006:

	Six Months Ended July 31,	
	2007	2006
	(in thousands)	
Operating activities		
Decrease (increase) in land held for development or sale [1][7]	**$ 1,033**	$ (413)
Increase in notes and accounts receivable [1][3][4][9]	**(2,849)**	(2,596)
(Increase) decrease in other assets [1][3][4][9]	**(66,777)**	365
Increase in restricted cash [1][4]	**(2,486)**	
Increase (decrease) in accounts payable and accrued expenses [1][3][4][7][8][9]	**79,744**	(31,209)
Total effect on operating activities	**$ 8,665**	$ (33,853)
Investing activities		
(Increase) decrease in projects under development [6][7][8][9]	**$(16,621)**	$ 38,475
Increase in completed rental properties [1][3][4][5]	**(57,377)**	
Increase in restricted cash [4]	**(16)**	
Non-cash proceeds from disposition of properties [2]	**77,960**	119,024
Increase in investments in and advances to affiliates[1][4]	**(3,915)**	
Total effect on investing activities	**$ 31**	$ 157,499
Financing activities		
Decrease in nonrecourse mortgage debt [1][2][3][4][5][9]	**$ (9,841)**	$(251,922)
Increase in notes payable [1]		4,701
(Increase) decrease in restricted cash [1][9]	**(1,412)**	150,418
Decrease in minority interest [2]		(27,102)
Increase in additional paid-in capital [6]	**3,637**	1,329
Dividends declared but not yet paid	**(1,080)**	(1,070)
Total effect on financing activities	**$ (8,696)**	$(123,646)

(1) Change to full consolidation method of accounting from equity method

due to acquisition of partners interest in *Midtown Towers*, *Sterling Glen of Glen Cove* and *Sterling Glen of Great Neck* apartments in the Residential Group during the six months ended July 31, 2007 and *Rockport Square* in the Land Development Group during the six months ended July 31, 2006.

(2) Assumption of nonrecourse mortgage debt by the buyer upon sale of *Sterling Glen of Bayshore* and *Sterling Glen of Roslyn*, a development project, in the Residential Group during the six months ended July 31, 2007. Assumption of nonrecourse mortgage debt and direct payment to partner by the buyer upon sale of *Hilton Times Square Hotel* and *G Street* properties in the Commercial Group and *Providence at Palm Harbor* in

the Residential Group during the six months ended July 31, 2006.

(3) Refinement of preliminary purchase price allocation during the six months ended July 31, 2007 for the *Galleria at Sunset* mall in the Commercial Group and the New York portfolio transaction that closed in November 2006.

(4) Change to full consolidation method of accounting from equity method due to the occurrence of a triggering event as described in FIN 46(R), Consolidation of Variable Interest Entities, for *Oceanpointe Towers* apartments in the Residential Group during the six months ended July 31, 2007.

(5) Assumption of nonrecourse mortgage debt due to the acquisition of properties in the Commercial Group during the

six months ended July 31, 2007.

(6) Capitalization of stock-based compensation granted to employees directly involved with the acquisition, development and construction of real estate.

(7) Change in construction payables included in accounts payable and accrued expenses.

(8) Estimate for environmental liabilities in the Commercial Group.

(9) Change to equity method of accounting from full consolidation due to admission of a 50% partner in *Uptown Apartments*, a residential development project in Oakland, California during the six months ended July 31, 2006.

The accompanying notes are an integral part of these consolidated financial statements.

Forest City Enterprises, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

A. Accounting Policies

Basis of Presentation

The interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the consolidated financial statements and related notes included in the Company s annual report on Form 10-K for the year ended January 31, 2007, including the Report of Independent Registered Public Accounting Firm. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement of financial position, results of operations and cash flows at the dates and for the periods presented have been included.

New Accounting Standards

In June 2007, the FASB ratified the consensus on the Emerging Issues Task Force (EITF) Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF No. 06-11). The provisions of EITF No. 06-11 require companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings under SFAS No. 123(R) as an increase to additional paid-in capital. The EITF is effective for fiscal years beginning after December 15, 2007. The adoption of EITF No. 06-11 is not expected to have a material impact on the Company s consolidated financial statements.

In March 2007, the FASB ratified the consensus on EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance (EITF No. 06-10). Under the provisions of EITF No. 06-10, an employer is required to recognize a liability for the post-retirement benefit related to collateral assignment split-dollar life insurance arrangements. In addition, the EITF provides guidance for the recognition of an asset related to a collateral assignment split-dollar life insurance arrangement. The EITF is effective for fiscal years beginning after December 15, 2007. The Company is currently assessing the impact EITF No. 06-10 will have on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits a company to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized as they occur. SFAS No. 159 permits the fair value option on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact SFAS No. 159, if adopted, will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about the use of fair value measurements. SFAS No. 157 does not require new fair value measurements, but applies to accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact SFAS No. 157 will have on its consolidated financial statements.

Variable Interest Entities

As of July 31, 2007, the Company determined that it is the primary beneficiary under FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities (FIN No. 46(R)) of 30 Variable Interest Entities (VIE) representing 18 properties (18 VIEs representing 8 properties in Residential Group, 10 VIEs representing 8 properties in Commercial Group, and 2 VIEs/properties in Land Development Group). As of July 31, 2007, the Company held variable interests in 42 VIEs for which it is not the primary beneficiary. As of July 31, 2007, the maximum exposure to loss as a result of the Company s involvement with these unconsolidated VIEs is limited to our recorded investments in those VIEs totaling approximately $122,000,000. The Company s VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities, land

development and a professional sports team.

Forest City Enterprises, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

A. Accounting Policies (continued)

In addition to the VIEs described above, the Company has also determined that it is the primary beneficiary of a VIE which holds collateralized borrowings of $29,000,000 (Note E Senior and Subordinated Debt) as of July 31, 2007.

Restricted Cash

Restricted cash represents legally restricted deposits with financial institutions for taxes and insurance, security deposits, capital replacement, improvement and operating reserves, bond funds, development escrows, construction escrows and collateral on total rate of return swaps, as well as certain internally restricted deposits with qualified intermediaries related to like-kind exchanges.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. Some of the critical estimates made by the Company include, but are not limited to, estimates of useful lives for long-lived assets, reserves for collection on accounts and notes receivable and other investments, provisions for decline in real estate and the computation of expected losses on VIEs. As a result of the nature of estimates made by the Company, actual results could differ.

In March 2007, management approved a plan to demolish two buildings owned by the Company adjacent to *Ten MetroTech Center*, an office building located in Brooklyn, New York, to clear the land for a residential project named *80 DeKalb Avenue*. Due to the new development plan, the estimated useful lives of the two adjacent buildings were adjusted to expire at the scheduled demolition date in April 2007 resulting in approximately $7,837,000 of accelerated depreciation expense reflected in the Consolidated Statements of Earnings for the six months ended July 31, 2007.

Historic Tax Credit Entities

The Company has certain investments in properties that have received, or the Company believes are entitled to receive, historic rehabilitation tax credits on qualifying expenditures under Section 47 of the Internal Revenue Code of 1986 as well as various state credit programs. The Company typically enters into these investments with sophisticated financial investors. In exchange for the financial investors initial contribution into these investments, they are entitled to substantially all of the benefits derived from the historic tax credit, but generally have a limited interest in the underlying economics of the properties. Typically, these arrangements have put/call provisions (which range up to 7 years) whereby the Company may be obligated (or entitled) to repurchase the financial investors interest. The Company has consolidated each of these properties in its consolidated financial statements, and has reflected the investors contribution as a liability in its Consolidated Balance Sheets. The Company guarantees the financial investor that in the event of a subsequent recapture by a taxing authority due to the Company s noncompliance with applicable tax credit guidelines that it will indemnify the financial investor for any recaptured tax credits. Within the Company s consolidated financial statements, the Company initially records a liability for the cash received from the financial investor. The Company generally records income upon completion and certification of the qualifying development expenditures resulting in an adjustment of the liability at each balance sheet date to the amount that would be paid to the financial investor based upon the tax credit compliance regulations, which range from 0 to 5 years. During the three and six months ended July 31, 2007, the Company recognized income related to historic tax credits of $888,000 and $1,776,000, respectively, which was recorded in interest and other income in the Company s Consolidated Statement of Earnings. During the three and six months ended July 31, 2006, the Company recognized income related to historic tax credits of $-0- and $8,838,000, respectively, which was recorded in interest and other income in the Company s Consolidated Statements of Earnings.

Capitalized Software Costs

Costs related to software developed or obtained for internal use are capitalized pursuant to Statement of Position No. 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and amortized using the straight-line method over their estimated useful life, which is primarily three years. The Company

capitalizes significant costs incurred in the acquisition or development of software for internal use, including the costs of the software, materials, consultants, interest and payroll and payroll-related costs for employees directly involved in developing internal-use computer software once final selection of the software is made. Costs incurred prior to the final selection of software and costs not qualifying for capitalization are charged to expense. At July 31 and January 31, 2007, the Company has capitalized $26,957,000 and $24,659,000, respectively, of software costs net of accumulated amortization. The increase in software costs primarily relates to the enterprise resource planning project the Company is currently implementing, of which the first phase was placed into service on March 1, 2007. The costs are being amortized on a straight-line basis over a three year period. The Company recorded $1,639,000 and $3,348,000 of amortization expense related to capitalized software for the three and six months ended July 31, 2007, respectively, and $87,000 and $173,000 for the three and six months ended July 31, 2006, respectively.

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A. Accounting Policies (continued)

Accounting for Derivative Instruments and Hedging Activities

During the three and six months ended July 31, 2007, the Company recorded interest income of approximately $380,000 and $52,000, respectively, in the Consolidated Statement of Earnings, which represented the total ineffectiveness of all cash flow hedges. During the three and six months ended July 31, 2006, the Company recorded interest expense of approximately $211,000 and $209,000, respectively, which represented the total ineffectiveness of all cash flow hedges. For the three and six months ended July 31, 2007 and 2006, the amount of hedge ineffectiveness relating to hedges designated and qualifying as fair value hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), was not material. The amount of derivative gains or (losses) reclassified into earnings from accumulated other comprehensive income (OCI) as a result of forecasted transactions that did not occur by the end of the originally specified time period or within an additional two-month period of time thereafter was $41,000 and $50,000 for the three and six months ended July 31, 2007, respectively, and $(8,000) and $(40,000) for the three and six months ended July 31, 2006, respectively. As of July 31, 2007, the Company expects that within the next twelve months it will reclassify amounts recorded in accumulated OCI into earnings as an increase in interest expense of approximately $2,227,000, net of tax.

The Company entered into various forward swaps to protect itself against fluctuations in the 10-year swap rate. At the time the Company secures and locks an interest rate on an anticipated financing, it intends to simultaneously terminate the forward hedge associated with that financing. The table below lists the 10-year forward swaps outstanding as of July 31, 2007 (in thousands):

Forward Swaps

Expirations for Years Ending January 31,	Fully Consolidated Properties Notional[(1)] Amount	Rate	Property Accounted for under the Equity Method of Accounting Notional[(2)] Amount	Rate
2008	$258,920	5.76%	$	
2009	$		$	
2010	$ 91,625	5.72%	$120,000	5.93%
Thereafter	$		$	

(1) As these 10-year forward swaps have been designated and qualified as cash flow hedges under SFAS No. 133, the Company s portion of unrealized gains

and losses on the effective portion of the hedges has been recorded in accumulated OCI. To the extent effective, the receipt or payment of cash at termination on these forward swaps will be recorded in accumulated OCI and will be amortized as either an increase or decrease to interest expense in the same periods as the interest payments on the financing.

(2) This forward swap does not qualify as a cash flow hedge under the provisions of SFAS No. 133 because it relates to an unconsolidated property. Therefore, the change in the fair value of this swap must be marked to market through earnings on a quarterly basis.

For the three and six months ended July 31, 2007, the Company recorded $2,897,000 and $1,450,000, respectively, as a reduction of interest expense related to its 10-year forward swaps in its Consolidated Statements of Earnings, which represents the increase in fair value of the swap that did not qualify for hedge accounting. For the three and six months ended July 31, 2006, the Company recorded $6,370,000 of interest expense related to its 10-year forward swaps in its Consolidated Statements of Earnings, which represents the decrease in fair value of the four swaps that did not qualify

for hedge accounting.
From time to time, the Company and/or certain of its joint ventures (the Joint Ventures) enter into total rate of return swaps (TRS) on various tax-exempt fixed-rate borrowings generally held by the Company and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that the Company and/or the Joint Ventures pay a variable rate, generally equivalent to the Security Industry and Financial Markets Association (SIFMA), formerly known as Bond Market Association (BMA) rate. Additionally, the Company and/or the Joint Ventures have guaranteed the principal balance of the underlying borrowing. Any fluctuation in the value of the guarantee would be offset by the fluctuation in the value of the underlying borrowing, resulting in no financial impact to the Company and/or the Joint Ventures. At July 31, 2007, the aggregate notional amount of TRS in which the Company and/or the Joint Ventures have an interest is approximately $329,201,000 (which includes the TRS on the $20,400,000 redevelopment bonds. Refer to Note E Senior and Subordinated Debt). The fair value of such contracts is immaterial at July 31, 2007 and January 31, 2007. The Company believes the economic return and related risk associated with a TRS is generally comparable to that of nonrecourse variable-rate mortgage debt.

Forest City Enterprises, Inc. and Subsidiaries
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A. Accounting Policies (continued)

The Company estimates the fair value of its hedging instruments based on interest rate market pricing models. At July 31 and January 31, 2007, interest rate caps and swaptions were reported at fair value of approximately $2,608,000 and $2,372,000, respectively, in other assets in the Consolidated Balance Sheets. At July 31 and January 31, 2007, interest rate swap agreements, which had a negative fair value of approximately $17,969,000 and $21,961,000, respectively, (which includes the 10-year forward swaps) were included in accounts payable and accrued expenses in the Consolidated Balance Sheets. At July 31 and January 31, 2007, interest rate swap agreements, which had a positive fair value of approximately $3,878,000 and $6,059,000, respectively, were included in other assets in the Consolidated Balance Sheets. Included in the fair value of the interest rate swap agreements at January 31, 2007 is a TRS held by Stapleton Land, LLC. Stapleton Land, LLC does not hold the underlying borrowings on this TRS and the change in the fair value is marked to market through earnings. The TRS matured during the six months ended July 31, 2007. The fair value of the TRS at January 31, 2007 was approximately $255,000.

In addition, in May 2004 Stapleton Land, LLC entered into an agreement to purchase $200,000,000 of tax increment revenue bonds issued by the Denver Urban Renewal Authority (DURA) from a trust if they are not repurchased or remarketed between June 1, 2007 and June 1, 2009 (see the Other Financing Arrangements section of Note F). Stapleton Land, LLC will receive a fee upon removal of the DURA bonds from the trust. This purchase obligation and related fee have been accounted for as a derivative with changes in fair value recorded through earnings. The fair value at July 31 and January 31, 2007 of approximately $19,349,000 and $15,090,000, respectively, is recorded in other assets in the Consolidated Balance Sheets.

Distribution of Accumulated Equity to Minority Partners

Distributions to minority partners in excess of their recorded minority interest balance related to refinancing proceeds from nonrecourse debt, which generally arise from appreciation of the underlying real estate assets, are reported as a reduction of additional paid-in-capital in the Consolidated Statements of Shareholders Equity. During the three months ended July 31, 2007, the Company refinanced *Fifteen MetroTech Center*, an office building located in Brooklyn, New York. In addition to *Fifteen MetroTech Center* the Company refinanced *Promenade in Temecula*, a regional mall located in Temecula, California, and *Columbia Park Center*, a specialty retail center located in North Bergen, New Jersey during the six months ended July 31, 2007. Of the total nonrecourse refinancing proceeds distributed to the Company s minority partners in these three properties during the three and six months ended July 31, 2007, $3,685,000 and $13,243,000, respectively, was in excess of the minority partners book capital accounts. These distributions were recorded as a reduction of shareholders equity through additional paid-in capital.

Other Comprehensive Income (Loss)

Net unrealized gains or losses on securities are included in accumulated OCI and represent the difference between the market value of investments in unaffiliated companies that are available-for-sale at the balance sheet date and the Company s cost. Also included in accumulated OCI is the Company s portion of the unrealized gains and losses on the effective portions of derivative instruments designated and qualified as cash flow hedges.

The following table summarizes the components of accumulated OCI included within the Company s Consolidated Balance Sheets.

	July 31, 2007	January 31, 2007
	(in thousands)	
Unrealized gains on securities	**$ 86**	$ 327
Unrealized losses on interest rate contracts	**(22,635)**	(24,675)
	(22,549)	(24,348)

Minority interest	**$ (217)**	$ (443)
Income tax benefit	**$ (8,629)**	$ (9,237)
Accumulated Other Comprehensive Loss	**$ (13,703)**	$ (14,668)

Reclassification

Certain prior year amounts in the accompanying consolidated financial statements have been reclassified to conform to the current year s presentation. For the six months ended July 31, 2006, the Company has revised its presentation of certain operating and investing activities to reflect accruals of certain construction payables in the amount of approximately $3,473,000 as a non-cash item to conform to the current period and year ended January 31, 2007 presentation.

Forest City Enterprises, Inc. and Subsidiaries
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B. Stock-Based Compensation

In March 2007, the Company granted 1,067,600 stock options and 153,200 shares of restricted stock under the Company s 1994 Stock Plan (as Amended and Restated as of June 21, 2005). The stock options had a total grant-date fair value of $18,309,000, or $17.15 per option, which was computed using the Black-Scholes option-pricing model with the following assumptions: expected term of 5.5 years, expected volatility of 18.3%, risk-free interest rate of 4.51%, and expected dividend yield of .54%. The exercise price of the options is $65.35, which was the closing price of the underlying stock on the date of grant. The restricted stock had a total grant-date fair value of $10,012,000, or $65.35 per share, which was the closing price of the stock on the date of grant.

At July 31, 2007, there was $24,689,000 of unrecognized compensation cost related to unvested stock options that is expected to be recognized over a weighted-average period of 3.10 years, and there was $15,457,000 of unrecognized compensation cost related to unvested restricted stock that is expected to be recognized over a weighted-average period of 3.15 years.

The amount of stock-based compensation costs and related deferred income tax benefit recognized in the financial statements are as follows:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2007	2006	**2007**	2006
	(in thousands)		*(in thousands)*	
Stock option costs	**$ 2,314**	$1,815	**$ 6,529**	$ 4,058
Restricted stock costs	**1,488**	1,192	**3,185**	1,993
Total stock-based compensation costs	**3,802**	3,007	**9,714**	6,051
Less amount capitalized into qualifying real estate projects	**(1,950)**	(811)	**(3,637)**	(1,329)
Amount charged to operating expenses	**1,852**	2,196	**6,077**	4,722
Depreciation expense on capitalized stock-based compensation	**19**		**39**	
Total stock-based compensation expense	**$ 1,871**	$2,196	**$ 6,116**	$ 4,722
Deferred income tax benefit	**$ 591**	$ 705	**$ 2,041**	$ 1,545

SFAS No. 123(R) Share-Based Payment requires the immediate recognition of stock-based compensation costs for awards granted to retirement-eligible grantees. The amount of stock-based compensation expensed on the grant date for awards granted to retirement-eligible grantees during the six months ended July 31, 2007 and 2006 was $2,152,000 and $1,170,000, respectively.

In connection with the vesting of restricted stock during the six months ended July 31, 2007 and 2006, the Company repurchased into treasury 50,186 shares and 17,970 shares, respectively, of Class A common stock to satisfy the employees related minimum statutory tax withholding requirements. These shares were placed in treasury with an aggregate cost basis of $3,138,000 and $826,000, respectively.

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C. Discontinued Operations, Gain on Disposition of Rental Properties and Provision for Decline in Real Estate

Discontinued Operations

Pursuant to the definition of a component of an entity in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144) all earnings of discontinued operations sold or held for sale, assuming no significant continuing involvement, have been reclassified in the Consolidated Statements of Earnings for the three and six months ended July 31, 2007 and 2006. The Company considers assets held for sale when the transaction has been approved and there are no significant contingencies related to the sale that may prevent the transaction from closing.

Sterling Glen of Lynbrook, a supported-living apartment community in Lynbrook, New York, was held for sale at July 31, 2007. Sterling Glen of Lynbrook s assets and liabilities as of July 31, 2007 are presented in the table below.

	July 31, 2007 (in thousands)
Assets	
Real estate	$ 29,858
Cash and equivalents	615
Restricted cash	831
Notes and accounts receivable, net	9
Other assets	1,639
Total Assets	$ 32,952
Liabilities	
Mortgage debt, nonrecourse	$ 27,696
Accounts payable and accrued expenses	280
Total Liabilities	$ 27,976

The following table lists the consolidated rental properties included in discontinued operations:

Property	Location	Square Feet/ Number of Units	Quarter/ Year Disposed	Three Months Ended 7/31/2007	Six Months Ended 7/31/2007	Three Months Ended 7/31/2006	Six Months Ended 7/31/2006
Commercial Group:							
Battery Park City Retail	Manhattan, New York	166,000 square feet	Q3-2006			Yes	Yes
Embassy Suites Hotel	Manhattan, New York	463 rooms	Q3-2006			Yes	Yes
Hilton Times Square	Manhattan, New York	444 rooms	Q1-2006				Yes

G Street Retail	Philadelphia, Pennsylvania	13,000 square feet	Q1-2006				Yes
Residential Group:							
Sterling Glen of Lynbrook	Lynbrook, New York	130 units	Est. Q1-2008	Yes	Yes	Yes	Yes
Sterling Glen of Bayshore	Bayshore, New York	85 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Center City	Philadelphia, Pennsylvania	135 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Darien	Darien, Connecticut	80 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Forest Hills	Forest Hills, New York	83 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Plainview	Plainview, New York	79 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Stamford	Stamford, Connecticut	166 units	Q2-2007	Yes	Yes	Yes	Yes
Landings of Brentwood	Nashville, Tennessee	724 units	Q2-2007	Yes	Yes		
Mount Vernon Square	Alexandria, Virginia	1,387 units	Q4-2006			Yes	Yes
Providence at Palm Harbor	Tampa, Florida	236 units	Q2-2006			Yes	Yes

Forest City Enterprises, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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C. Discontinued Operations, Gain on Disposition of Rental Properties and Provision for Decline in Real Estate (continued)

During the three months ended July 31, 2007, the Company consummated an agreement with a third party to dispose of eight and lease four supported-living apartment properties. Eleven of the properties are open and operating and one is under construction. The property under construction and seven operating properties will be sold, and four will be operated by the purchaser under long-term operating leases. The operating leases will have a stated term of five years with various put and call provisions at a pre-determined purchase price that can be exercised generally after two years from the signing date of each lease at an amount that is in excess of the current carrying amount of the properties. The Company is generally entitled to a fixed lease payment from the lessee over the term of the lease in exchange for the operations of the properties, which will be retained by the lessee. During June 2007, prior to the agreements to dispose and lease its supported-living properties, the Company acquired its partner s interests in each of these properties for net cash consideration of approximately $20.5 million. The acquisition of its partner s interest (a related party who is an employee of the Company) was accounted for as an acquisition of minority interest in accordance with SFAS No. 141 and has been recorded as an adjustment of the basis of the supported-living properties.

During the three months ended July 31, 2007, the property under construction, *Sterling Glen of Roslyn*, located in Roslyn, New York, was sold at a pre-tax gain of $10,090,000 ($6,191,000 net of tax) that is included in other income in the Consolidated Statements of Earnings for the three and six months ended July 31, 2007. In addition, during July 2007 six operating properties, listed in the table above, were sold generating a gain on disposition of rental properties of $81,239,000 ($49,848,000 net of tax and minority interest), which has been classified as discontinued operations along with the operating results of the six properties through the date of sale. The seventh operating property, *Sterling Glen of Lynbrook*, is expected to be sold in 2008 and is being operated by the purchaser under a short-term lease. This property is presented as discontinued operations as of July 31, 2007 as the terms of its lease meet the qualifications of assets held for sale under SFAS No. 144.

Three of the remaining properties entered into long-term operating leases with the purchaser (one of which closed on August 1, 2007). The Company has continued to consolidate the leased properties in its Consolidated Balance Sheets at July 31, 2007 as the criteria for sales accounting pursuant to the provisions of SFAS No. 66, Accounting for Sales of Real Estate (SFAS No. 66) have not been achieved. Further, the Company has concluded that the leased properties have met the criteria as a VIE pursuant to FIN 46R, and due to its obligation to absorb a majority of expected losses, the leased properties are consolidated by the Company at July 31, 2007 and are expected to remain consolidated until sold. The provisions of these three leases do not meet the qualifications of assets held for sale under SFAS No. 144 as of July 31, 2007; therefore, these properties have not been included in discontinued operations. It is expected that one additional operating property will enter into a long-term lease with the purchaser later in 2007.

During the three months ended July 31, 2007, the Company also disposed of *Landings of Brentwood*, a 724-unit apartment community, for a gain on disposition of rental properties of $25,079,000 ($15,388,000 net of tax and minority interest).

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C. Discontinued Operations, Gain on Disposition of Rental Properties and Provision for Decline in Real Estate (continued)

The operating results related to discontinued operations were as follows:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2007	2006	**2007**	2006
	(in thousands)		*(in thousands)*	
Revenues	**$ 12,397**	$33,166	**$ 24,599**	$ 66,445
Expenses				
Operating expenses	**11,883**	20,472	**20,730**	47,005
Depreciation and amortization	**921**	3,470	**1,934**	6,914
	12,804	23,942	**22,664**	53,919
Interest expense	**(2,000)**	(4,832)	**(3,608)**	(10,210)
Amortization of mortgage procurement costs	**(34)**	(151)	**(69)**	(318)
Loss on early extinguishment of debt	**(363)**		**(363)**	
Interest income	**112**	281	**209**	1,004
Gain on disposition of rental properties	**106,318**	7,342	**106,318**	143,726
Earnings before income taxes	**103,626**	11,864	**104,422**	146,728
Income tax expense				
Current	**5,682**	1,405	**5,740**	703
Deferred	**34,358**	3,993	**34,608**	33,252
	40,040	5,398	**40,348**	33,955
Earnings before minority interest	**63,586**	6,466	**64,074**	112,773
Minority interest, net of tax				
Gain (loss) on disposition of rental properties		(2,693)		58,393
Operating earnings from rental properties		586		457
		(2,107)		58,850
Net earnings from discontinued operations	**$ 63,586**	$ 8,573	**$ 64,074**	$ 53,923

Gain on Disposition of Rental Properties

The following table summarizes the gain on disposition of rental properties, before tax and minority interest, for the three and six months ended July 31, 2007 and 2006:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2007	2006	**2007**	2006
	(in thousands)		*(in thousands)*	
Discontinued Operations:				
Six Sterling Glen properties (Supported-Living Apartments)[1]	**$ 81,239**	$	**$ 81,239**	$
Landings of Brentwood (Apartments) [2]	**25,079**		**25,079**	
Hilton Times Square Hotel [2]				135,945
G Street Retail (Specialty Retail Center)				439
Providence at Palm Harbor (Apartments) [2]		7,342		7,342
Total	**$106,318**	$7,342	**$106,318**	$143,726

(1) The six properties included in the gain on disposition are *Sterling Glen of Bayshore, Sterling Glen of Center City, Sterling Glen of Darien, Sterling Glen of Forest Hills, Sterling Glen of Plainview* and *Sterling Glen of Stamford*. The Company elected to deposit the sales proceeds with a qualified intermediary for the purposes of identifying replacement assets under Section 1031 of the Internal Revenue Code for all the aforementioned properties except *Sterling Glen of Forest Hills*.

(2) The Company elected to deposit the sales proceeds with a qualified intermediary for purposes of acquiring replacement assets under Section 1031 of the Internal Revenue Code.

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C. Discontinued Operations, Gain on Disposition of Rental Properties and Provision for Decline in Real Estate (continued)

Investments accounted for on the equity method are not subject to the provisions of SFAS No. 144; therefore, the gains or losses on the sales of equity method properties are reported in continuing operations when sold. The following table summarizes the Company s proportionate share of the gains on disposition of equity method investments during the three and six months ended July 31, 2007 and 2006, which are included in equity in earnings of unconsolidated entities in the Consolidated Statements of Earnings:

		Three Months Ended July 31,		Six Months Ended July 31,	
		2007	2006	**2007**	2006
		(in thousands)		*(in thousands)*	
White Acres (Apartments)[1]	Richmond Heights, Ohio	**$**	$	**$2,106**	$
Midtown Plaza (Specialty Retail Center)	Parma, Ohio		7,662		7,662
		$	$ 7,662	**$2,106**	$7,662

(1) The Company disposed of its interest in *White Acres* in a non-monetary exchange for the remaining outside interest in *Midtown Towers*, an apartment community located in Parma, Ohio, which was also an equity method investment. The Company has accounted for the non-monetary transaction based upon the fair value of the equity method investments exchanged, which resulted in the above gain on disposition of $2,106,000 for the six months ended July 31, 2007.

Provision for Decline in Real Estate

The Company reviews its real estate portfolio, including land held for development or sale, to determine if its carrying costs will be recovered from future undiscounted cash flows whenever events or changes indicate that recoverability of long-lived assets may not be supported by current assumptions. In cases where the Company does not expect to recover its carrying costs, an impairment loss is recorded as a provision for decline in real estate pursuant to the guidance established in SFAS No. 144.

There was no provision for decline in real estate recorded for the three and six months ended July 31, 2007. During the three and six months ended July 31, 2006, the Company recorded a provision for decline in real estate of $1,923,000 related to *Saddle Rock Village*, a commercial specialty retail center and its adjacent outlots located in Aurora, Colorado. This provision represents a write down to the estimated fair value, less cost to sell, due to a change in events, such as an offer to purchase, related to the estimated future cash flows.

D. Bank Revolving Credit Facility

On June 6, 2007, the Company s 13-member bank group approved an amended and restated bank revolving credit facility. The amendment extended the maturity date one year until March 2010 and reduced the spread on the London Interbank Offered Rate (LIBOR) rate option by 30 basis points to 1.45%. Among other transactional provisions, the amended facility contains an accordion provision that allows the Company, subject to bank approval, to increase its maximum borrowings by $150,000,000 to $750,000,000 at any time prior to maturity. The Company s financial covenants, as defined in the credit facility, have remained unchanged.

The maximum borrowings, outstanding balances and related terms of the bank revolving credit facility at July 31, 2007 and January 31, 2007 were as follows (in thousands, except percentage amounts):

	July 31, 2007	January 31, 2007

Maximum borrowings [1]	**$**	**600,000**	$	600,000
Accordion option	**$**	**150,000**	$	
Outstanding:				
Borrowings	**$**	**235,000**	$	
Letters of credit	**$**	**83,338**	$	72,324
Surety bonds	**$**		$	
Related Terms:				
LIBOR rate option [2]		**1.45% + LIBOR**		1.75% + LIBOR
Prime rate option		**1/2% + prime rate**		1/2% + prime rate
Dividend/stock repurchase limitation	**$**	**40,000**	$	40,000

(1) $100,000,000 of the available borrowings may be used for letters of credit or surety bonds.

(2) The Company generally elects the LIBOR rate option over the prime rate option.

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E. Senior and Subordinated Debt

The Company s Senior and Subordinated Debt is comprised of the following at both July 31, 2007 and January 31, 2007 (in thousands):

Senior Notes:	
3.625% Puttable Equity-Linked Senior Notes due 2011	**$ 287,500**
Other Senior Notes:	
7.625% Senior Notes due 2015	**300,000**
6.500% Senior Notes due 2017	**150,000**
7.375% Senior Notes due 2034	**100,000**
Total Senior Notes	**837,500**
Subordinated Debt:	
Redevelopment Bonds due 2010	**20,400**
Subordinate Tax Revenue Bonds due 2013	**29,000**
Total Subordinated Debt	**49,400**
Total Senior and Subordinated Debt	**$ 886,900**

Puttable Equity-Linked Senior Notes

On October 10, 2006, the Company issued $287,500,000 of 3.625% puttable equity-linked senior notes due October 15, 2011 in a private placement. The proceeds from this offering (net of $25,000,000 of offering costs, underwriting fees and the cost of the puttable note hedge and warrant transactions described below) were used to repurchase $24,962,000 of the Company s Class A common stock, to repay the outstanding balance of $190,000,000 under the bank revolving credit facility (see Note D - Bank Revolving Credit Facility) and for general working capital purposes. The notes were issued at par and accrued interest is payable semi-annually in arrears on April 15 and October 15 of each year, beginning on April 15, 2007. The Company may not redeem these notes prior to maturity. The notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness.

Holders may put their notes to the Company at their option on any day prior to the close of business on the scheduled trading day immediately preceding July 15, 2011 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of that measurement period was less than 98% of the product of the last reported sale price of the Company s Class A common stock and the put value rate (as defined) on each such day; (2) during any fiscal quarter after the fiscal quarter ending January 31, 2007, if the last reported sale price of the Company s Class A common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the applicable put value price in effect on the last trading day of the immediately preceding fiscal quarter; or (3) upon the occurrence of specified corporate events as set forth in the applicable indenture. On and after July 15, 2011 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may put their notes to the Company at any time, regardless of the foregoing circumstances. In addition, upon a designated event, as defined, the holders may require the Company to purchase for

cash all or a portion of their notes for 100% of the principal amount of the notes plus accrued and unpaid interest, if any, as set forth in the applicable indenture.

If a note is put to the Company, a holder would receive (i) cash equal to the lesser of the principal amount of the note or the put value and (ii) to the extent the put value exceeds the principal amount of the note, shares of the Company s Class A common stock, cash, or a combination of Class A common stock and cash, at the Company s option. The initial put value rate was 15.0631 shares of Class A common stock per $1,000 principal amount of notes (equivalent to a put value price of $66.39 per share of Class A common stock). The put value rate will be subject to adjustment in some events but will not be adjusted for accrued interest. In addition, if a fundamental change, as defined, occurs prior to the maturity date, the Company will in some cases increase the put value rate for a holder that elects to put its notes.

The Company entered into a registration rights agreement that required a shelf registration statement to be filed within 90 days and declared effective under the United States Securities Act of 1933 (Securities Act) within 180 days after October 10, 2006. The Company filed a shelf registration statement under the Securities Act for the resale of the notes and the Class A common stock issuable upon the Company s exercise of the net share settlement option on January 4, 2007 and it was immediately effective due to our status as a Well-Known Seasoned Issuer. The Company will use its best efforts to keep the shelf registration statement effective until the earliest of: (1) the date all of the registrable securities have been sold pursuant to the shelf registration statement; (2) the

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E. Senior and Subordinated Debt (continued)

expiration of the holding period under Rule 144(k) under the Securities Act, or any successor provision; or (3) two years from the date the shelf registration statement is declared effective. The Company refers to each of the following as an effective failure: (1) the shelf registration statement ceases to be effective, or (2) the Company suspends the use of the prospectus or the holders are otherwise prevented or restricted by the Company from effecting sales pursuant to the shelf registration statement, and either continues for more than 30 days, whether or not consecutive, in any 90-day period, or for more than 90 days, whether or not consecutive, during any 12-month period.

Upon the occurrence of an effective failure, the Company will be required to pay additional amounts, in cash, to holders of the notes. Such additional amounts will accrue on the notes that are registrable securities, from and including the day following the effective failure to but excluding, the earlier of the time such holders are again able to make resales under the shelf registration statement and the date the shelf registration statement is no longer required to be kept effective. Additional amounts will be paid semiannually in arrears on each April 15 and October 15 and will accrue at a rate per annum equal to 0.25% for the first 90 days after the occurrence of the event and 0.50% after the first 90 days. In no event will additional amounts exceed 0.50% per annum. At July 31, 2007, the maximum potential additional amounts that could be required to be paid by the Company is approximately $2,174,000 for the two year period in which the shelf registration is required to be effective. At July 31, 2007, the Company, in accordance with FASB Statement No. 5, Accounting for Contingencies , has concluded that it is not probable it will be required to pay additional amounts as a result of an effective failure.

Concurrent with the issuance of the notes, the Company purchased a call option on its Class A common stock in a private transaction. The purchased call option allows the Company to receive shares of its Class A common stock and/or cash from counterparties equal to the amounts of Class A common stock and/or cash related to the excess put value that it would pay to the holders of the notes if put to the Company. These purchased call options will terminate upon the earlier of the maturity dates of the notes or the first day all of the notes are no longer outstanding due to a put or otherwise. The purchased call options, which cost an aggregate $45,885,000 ($28,155,000 net of the related tax benefit), were recorded net of tax as a reduction of shareholders equity through additional paid-in capital during the year ended January 31, 2007. In a separate transaction, the Company sold warrants to issue shares of the Company s Class A common stock at an exercise price of $74.35 per share in a private transaction. If the average price of the Company s Class A common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of the Company s Class A common stock. Proceeds received from the issuance of the warrants totaled approximately $28,923,000 and were recorded as an addition to shareholders equity through additional paid-in capital during the year ended January 31, 2007.

Other Senior Notes

Along with its wholly-owned subsidiaries, Forest City Enterprises Capital Trust I (Trust I) and Forest City Enterprises Capital Trust II (Trust II), the Company filed an amended shelf registration statement with the SEC on May 24, 2002. This shelf registration statement amended the registration statement previously filed with the SEC in December 1997. This registration statement is intended to provide the Company flexibility to raise funds from the offering of Class A common stock, preferred stock, depositary shares and a variety of debt securities, warrants and other securities. Trust I and Trust II have not issued securities to date and, if issued, would represent the sole net assets of the trusts.

On May 19, 2003, the Company issued $300,000,000 of 7.625% senior notes due June 1, 2015 in a public offering under its shelf registration statement. Accrued interest is payable semi-annually on December 1 and June 1. These senior notes may be redeemed by the Company, at any time on or after June 1, 2008 at a redemption price of 103.813% beginning June 1, 2008 and systematically reduced to 100% in years thereafter.

On January 25, 2005, the Company issued $150,000,000 of 6.500% senior notes due February 1, 2017 in a public offering under its shelf registration statement. Accrued interest is payable semi-annually on February 1 and August 1. These senior notes may be redeemed by the Company, at any time on or after February 1, 2010 at a redemption price of 103.250% beginning February 1, 2010 and systematically reduced to 100% in the years thereafter. However, if the

Company completes one or more public equity offerings prior to February 1, 2008, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 106.50% of the principal amount of the notes.

On February 10, 2004, the Company issued $100,000,000 of 7.375% senior notes due February 1, 2034 in a public offering under its shelf registration statement. Accrued interest is payable quarterly on February 1, May 1, August 1, and November 1. These senior notes may be redeemed by the Company, in whole or in part, at any time on or after February 10, 2009 at a redemption price equal to 100% of their principal amount plus accrued interest.

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E. Senior and Subordinated Debt (continued)

The Company s senior notes are unsecured senior obligations and rank equally with all existing and future unsecured indebtedness; however, they are effectively subordinated to all existing and future secured indebtedness and other liabilities of the Company s subsidiaries to the extent of the value of the collateral securing such other debt, including the bank revolving credit facility. The indentures governing the senior notes contain covenants providing, among other things, limitations on incurring additional debt and payment of dividends.

Subordinated Debt

In November 2000, the Company issued $20,400,000 of redevelopment bonds in a private placement. The bonds bear a fixed interest rate of 8.25% and are due September 15, 2010. The Company has entered into a TRS for the benefit of these bonds that expires on September 15, 2008. Under this TRS, the Company receives a rate of 8.25% and pays SIFMA rate plus a spread (1.15% through September 2006 and 0.90% thereafter). Interest is payable semi-annually on March 15 and September 15. This debt is unsecured and subordinated to the senior notes and the bank revolving credit facility.

In May 2003, the Company purchased $29,000,000 of subordinate tax revenue bonds that were contemporaneously transferred to a custodian, which in turn issued custodial receipts that represent ownership in the bonds to unrelated third parties. The Company evaluated the transfer pursuant to the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140), and has determined that the transfer does not qualify for sale accounting treatment principally because the Company has guaranteed the payment of principal and interest in the unlikely event that there is insufficient tax revenue to support the bonds when the custodial receipts are subject to mandatory tender on December 1, 2013. As such, the Company is the primary beneficiary of this VIE (see the Variable Interest Entities section of Note A) and the book value (which approximates amortized costs) of the bonds was recorded as a collateralized borrowing reported as senior and subordinated debt and as held-to-maturity securities reported as other assets in the Consolidated Balance Sheets.

F. Financing Arrangements

Collateralized Borrowings

On July 13, 2005, the Park Creek Metropolitan District (the District) issued $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds), Series 2005. The District used a portion of the proceeds to repay developer advances and accrued interest of $30,271,000 to Stapleton Land, LLC, a consolidated subsidiary of the Company.

On July 13, 2005, Stapleton Land II, LLC, a consolidated subsidiary of the Company, entered into an agreement whereby it will receive a 1% fee on the $65,000,000 Senior Subordinate Bonds described above in exchange for providing certain credit enhancement. In connection with this transaction, Stapleton Land II, LLC provided a combination of cash and notes receivable aggregating approximately $10,000,000 as collateral, which was recorded in the Consolidated Balance Sheets as of January 31, 2007. During the six-month period ended July 31, 2007, the cash component was replaced as collateral by certain notes receivable owned by the Company. For the three and six months ended July 31, 2007, the Company recorded approximately $163,000 and $394,000, respectively, of interest income related to this arrangement in the Consolidated Statements of Earnings. Of the interest income amount, $163,000 and $321,000, respectively, is fee interest income and $-0- and $73,000, respectively, is interest income on the collateral. For the three and six months ended July 31, 2006, the Company recorded $269,000 and $506,000, respectively, of interest income related to this arrangement in the Consolidated Statements of Earnings. Of the interest income amount, $164,000 and $322,000, respectively, is fee interest income and $105,000 and $184,000, respectively, is interest income on the collateral. The counterparty to the credit enhancement arrangement also owns the underlying Senior Subordinate Bonds and can exercise its rights requiring payment from Stapleton Land II, LLC upon an event of default of the Senior Subordinate Bonds, a refunding of the Senior Subordinate Bonds, or failure of Stapleton Land II, LLC to post required collateral. The agreement is scheduled to expire on July 1, 2009. The maximum potential amount of payments Stapleton Land II, LLC could be required to make under the agreement is the par value of the

Senior Subordinate Bonds. The Company does not have any rights or obligations to acquire the $65,000,000 Senior Subordinate Bonds under this agreement. At July 31, 2007, the fair value of this agreement, which is deemed to be a derivative financial instrument, was immaterial. Subsequent changes in fair value, if any, will be marked to market through earnings.

On August 16, 2005, the District issued $58,000,000 Junior Subordinated Limited Property Tax Supported Revenue Bonds, Series 2005 (the Junior Subordinated Bonds). The Junior Subordinated Bonds initially pay a variable rate of interest. Upon issuance, the Junior Subordinated Bonds were purchased by a third party and the sales proceeds were deposited with a trustee pursuant to the terms of the Series 2005 Investment Agreement. Under the terms of the Series 2005 Investment Agreement, after March 1, 2006, the District may elect to withdraw funds from the trustee for reimbursement for certain qualified infrastructure and interest expenditures (Qualifying Expenditures). In the event that funds from the trustee are used for Qualifying Expenditures, a corresponding amount

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F. Financing Arrangements (continued)

of the Junior Subordinated Bonds converts to an 8.5% fixed rate and matures in December 2037 (Converted Bonds). On August 16, 2005, Stapleton Land, LLC entered into a Forward Delivery Placement Agreement (FDA) whereby Stapleton Land, LLC is entitled to and obligated to purchase the converted fixed rate Junior Subordinated Bonds through June 2, 2008. Prior to the incurrence of Qualifying Expenditures and the resulting Converted Bonds, Stapleton Land, LLC has no rights or obligations relating to the Junior Subordinated Bonds. In the event the District does not incur Qualifying Expenditures, the Junior Subordinated Bonds will mature on June 2, 2008. During 2006, the District withdrew $20,000,000 of funds from the trustee for reimbursement of certain Qualifying Expenditures. On May 1, 2007, the District withdrew an additional $14,000,000 of funds from the trustee for reimbursement of certain Qualifying Expenditures. Therefore, a corresponding amount of the Junior Subordinated Bonds became Converted Bonds and were acquired by Stapleton Land, LLC under the terms of the FDA. Stapleton Land, LLC immediately transferred the Converted Bonds to investment banks and the Company simultaneously entered into TRS with a notional amount of $34,000,000. The Company receives a fixed rate of 8.5% and pays SIFMA plus a spread on the TRS related to the Converted Bonds. The Company determined the sale of the Converted Bonds to the investment banks and simultaneous execution of the TRS did not surrender control; therefore, the Converted Bonds have been recorded as a secured borrowing in the Consolidated Balance Sheets. The Company has classified the Converted Bonds as available for sale, with unrealized holding gains and losses recorded in accumulated other comprehensive income. The fair value of the Converted Bonds was approximately $34,000,000 and $20,000,000, respectively, at July 31, 2007 and January 31, 2007. For the three and six months ended July 31, 2007, the Company recorded $346,000 and $560,000, respectively, as a reduction of interest expense related to the $34,000,000 TRS in the Consolidated Statement of Earnings. As of July 31, 2007 no further draws have been made by the District.

Other Financing Arrangements

In May 2004, a third party purchased $200,000,000 in tax increment revenue bonds issued by DURA, with a fixed-rate coupon of 8.0% and maturity date of October 1, 2024, which were used to fund the infrastructure costs associated with phase II of the Stapleton development project. The DURA bonds were transferred to a trust that issued floating rate trust certificates. Stapleton Land, LLC entered into an agreement with the third party to purchase the DURA bonds from the trust if they are not repurchased or remarketed between June 1, 2007 and June 1, 2009. Stapleton Land, LLC will receive a fee upon removal of the DURA bonds from the trust equal to the 8.0% coupon rate, less the SIFMA index (fixed at 2.85% through June 1, 2007), plus 40 basis points, less all fees and expenses due to the third party (collectively, the Fee).

The Company has concluded that the trust described above is considered a qualified special purpose entity pursuant to the provisions of SFAS No. 140 and thus is excluded from the scope of FIN No. 46 (R). As a result, the DURA bonds and the activity of the trust have not been recorded in the consolidated financial statements. The purchase obligation and the Fee have been accounted for as a derivative with changes in fair value recorded through earnings.

The fair market value of the purchase obligation and the Fee is determined based on the present value of the estimated amount of future cash flows considering possible variations in the amount and/or timing. The fair value of $19,349,000 at July 31, 2007 and $15,090,000 at January 31, 2007 is recorded in other assets in the Consolidated Balance Sheets. For the three and six months ended July 31, 2007, the Company has reported interest income of approximately $2,253,000 and $4,259,000, respectively, related to the Fee in the Consolidated Statements of Earnings. For the three and six months ended July 31, 2006, the Company has reported interest income of approximately $1,583,000 and $2,717,000, respectively, related to the Fee in the Consolidated Statements of Earnings.

Also in May 2004, Stapleton Land, LLC entered into a TRS and an interest rate swap both with notional amounts of $75,000,000. Stapleton Land, LLC receives a rate of 6.3% and pays SIFMA plus 60 basis points on the TRS (Stapleton Land, LLC paid SIFMA plus 160 basis points for the initial first 6 months under this agreement). On the interest rate swap, Stapleton Land, LLC pays a rate of 2.85% and receives SIFMA. Stapleton Land, LLC does not hold the underlying borrowings on the TRS. (See the Accounting for Derivative Instruments and Hedging Activities

section in Note A). The change in the fair value of the TRS is marked to market through earnings. The TRS matured during the six months ended July 31, 2007. The fair value of the TRS at January 31, 2007 was approximately $255,000.

Stapleton Land, LLC has committed to fund $24,500,000 to the Park Creek Metropolitan District to be used for certain infrastructure projects. Stapleton Land, LLC has funded $4,692,000 of this commitment as of July 31, 2007.

G. Dividends

The Company pays quarterly cash dividends on shares of Class A and Class B common stock. The first quarterly dividend of $.07 per share on both Class A and Class B common stock was declared on March 22, 2007 and was paid on June 15, 2007 to shareholders of record at the close of business on June 1, 2007. The second quarterly cash dividend of $.08 per share on both Class A and Class B common stock was declared on June 21, 2007 and will be paid on September 18, 2007 to shareholders of record at the close of business on September 4, 2007.

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H. Earnings per Share

Earnings per share (EPS) has been computed under the provisions of SFAS No. 128 Earnings Per Share . Pursuant to EITF No. 03-6 Participating Securities and the Two-Class Method under FASB 128 , the Class A Common Units issued in exchange for Bruce C. Ratner s minority interests in the Forest City Ratner Company portfolio in November 2006, which are reflected as minority interest in the Company s Consolidated Balance Sheets, are considered participating securities as they are entitled to participate in any dividends paid to the Company s common stock holders; therefore, are included in the computation of basic and diluted earnings per share if the effect of applying the if-converted method is dilutive.

The computation of EPS for continuing operations for the three and six months ended July 31, 2007 did not allocate any amounts to the holders of the Class A Common Units, which are considered participating securities in accordance with EITF 03-6. For the three months ended July 31, 2007, there were no undistributed earnings from continuing operations to allocate because dividends declared on our common stock exceeded earnings from continuing operations. For the six months ended July 31, 2007, the $13,480 of loss from continuing operations was allocated solely to the holders of common stock as the participating security holders do not share in the losses in accordance with EITF 03-6. The computation of EPS for discontinued operations for the three and six months ended July 31, 2007 reflects the allocation of dividends of $4,014 and $15,421, respectively, to common stock holders which were not included in the computation of EPS for continuing operations. The balance of the income from discontinued operations was allocated to common stock holders and the participating securities in accordance with EITF 03-6.

The reconciliation of the amounts used in the basic and diluted earnings per share computations is shown in the following table.

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2007	2006	**2007**	2006
Numerators *(in thousands)*				
Earnings (loss) from continuing operations Basic	**$ 4,189**	$ (1,081)	**$ (13,480)**	$ 6,827
Preferred distribution on Class A Common Units, net of tax	**575**			
Earnings (loss) from continuing operations Diluted	**$ 4,764**	$ (1,081)	**$ (13,480)**	$ 6,827
Net earnings	**$ 67,775**	$ 7,492	**$ 50,594**	$ 60,750
Undistributed earnings allocated to participating securities	**(2,186)**		**(1,292)**	
Net earnings Basic	**65,589**	7,492	**49,302**	60,750
Undistributed earnings allocated to participating securities	**2,186**			
Preferred distribution on Class A Common Units, net of tax	**575**			
Net earnings Diluted	**$ 68,350**	$ 7,492	**$ 50,594**	$ 60,750

Denominators								
Weighted average shares outstanding Basic		**102,239,962**		101,705,878		**102,117,423**		101,664,782
Effect of stock options and restricted stock (1) (2) (3) (4)		**1,646,110**						1,483,324
Effect of convertible Class A Common Units (3)		**3,894,232**						
Weighted average shares outstanding Diluted (5)		**107,780,304**		101,705,878		**102,117,423**		103,148,106
Earnings Per Share								
Earnings (loss) from continuing operations Basic	**$**	**0.04**	$	(0.01)	**$**	**(0.13)**	$	0.07
Earnings (loss) from continuing operations Diluted	**$**	**0.04**	$	(0.01)	**$**	**(0.13)**	$	0.07
Net earnings Basic	**$**	**0.64**	$	0.07	**$**	**0.48**	$	0.60
Net earnings Diluted	**$**	**0.63**	$	0.07	**$**	**0.48**	$	0.59

(1) Options granted in March 2007 to purchase 1,067,600 shares of common stock were not included in the computation of diluted earnings per share for the three months ended July 31, 2007 because they were anti-dilutive.

(2) For the three months ended July 31, 2006, the effect of 1,551,707 shares of options and restricted stock were not included in the computation of diluted earnings

per share because their effect is anti-dilutive to the loss from continuing operations.

(3) For the six months ended July 31, 2007, the effect of 1,713,583 options and restricted stock and 3,894,232 Class A Common Units were not included in the computation of diluted earnings per share because their effect is anti-dilutive to the loss from continuing operations.

(4) Options granted in April 2006 to purchase 960,100 shares of common stock were not included in the computation of diluted earnings per share for the three and six months ended July 31, 2006 because they were anti-dilutive.

(5) The Puttable Equity-Linked Senior Notes issued in

October 2006 can be put to the Company by the holders under certain circumstances (see Note E Senior and Subordinated Debt). If the Company exercises its net share settlement option upon a put of the notes by the holders, it will then issue shares of its Class A common stock. The effect of these shares was not included in the computation of diluted earnings per share for the three and six months ended July 31, 2007 as the Company s average stock price did not exceed the put value price of the Puttable Equity-Linked Senior Notes. Additionally, the Company sold a warrant with an exercise price of $74.35, which has also been excluded from diluted earnings per share for the three and six months ended July 31, 2007 as

the Company s stock price did not exceed the exercise price.

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I. Investments in and Advances to Affiliates

Included in investments in and advances to affiliates are unconsolidated investments in entities which the Company does not control and/or is not deemed to be the primary beneficiary, and which are accounted for under the equity method of accounting, as well as advances to partners and other affiliates.

Following is a reconciliation of members and partners equity to the Company s carrying value in the accompanying Consolidated Balance Sheets:

	July 31, 2007	January 31, 2007
	(in thousands)	
Members and partners equity as below	**$741,266**	$592,681
Equity of other members and partners	**574,698**	496,971
Company s investment in partnerships	**$166,568**	$ 95,710
Advances to and on behalf of other affiliates	**246,859**	238,072
Total Investments in and Advances to Affiliates	**$413,427**	$333,782

Summarized financial information for the equity method investments is as follows:

	(Combined 100%)	
	July 31, 2007	January 31, 2007
	(in thousands)	
Balance Sheet:		
Completed rental properties	**$2,803,619**	$2,697,454
Projects under development	**1,098,900**	777,419
Land held for development or sale	**201,634**	160,296
Accumulated depreciation	**(585,778)**	(554,910)
Restricted cash	**1,345,097**	1,432,636
Other assets	**573,839**	526,142
Total Assets	**$5,437,311**	$5,039,037
Mortgage debt, nonrecourse	**$4,047,069**	$3,834,085
Other liabilities	**648,976**	612,271
Members and partners equity	**741,266**	592,681
Total Liabilities and Members /Partners Equity	**$5,437,311**	$5,039,037

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Forest City Enterprises, Inc. and Subsidiaries
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I. Investments in and Advances to Affiliates (Continued)

	(Combined 100%)			
	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2007	2006	**2007**	2006
	(in thousands)		*(in thousands)*	
Operations:				
Revenues	**$ 234,704**	$ 164,684	**$ 452,164**	$ 331,624
Operating expenses	**(156,653)**	(109,476)	**(311,434)**	(232,276)
Interest expense	**(48,538)**	(33,100)	**(102,581)**	(65,479)
Provision for decline in real estate		(1,000)		(1,000)
Depreciation and amortization	**(37,389)**	(23,577)	**(75,133)**	(60,995)
Interest income	**9,363**	3,670	**28,552**	6,716
Minority interest				
Income (loss) from continuing operations (pre-tax)[2]	**1,487**	1,201	**(8,432)**	(21,410)
Discontinued operations:				
Gain on disposition of rental properties [1]		15,325	**4,212**	15,325
Operating earnings from rental properties		160	**584**	103
		15,485	**4,796**	15,428
Net earnings (loss) (pre-tax) [2]	**$ 1,487**	$ 16,686	**$ (3,636)**	$ (5,982)
Company s portion of net earnings (pre-tax) [2]	**$ 7,773**	$ 6,310	**$ 9,134**	$ 6,689

(1) The following table shows the detail of gain on disposition of rental properties that were held by equity method investments:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2007	2006	**2007**	2006
	(in thousands)		*(in thousands)*	

White Acres (Apartments) (Richmond Hts., Ohio)	**$**	$	**$ 4,212**	$
Midtown Plaza (Specialty Retail Center) (Parma, Ohio)		15,325		15,325
Total gain on dispostion of equity method rental properties	**$**	$ 15,325	**$ 4,212**	$ 15,325
Company s portion of gain on disposition of equity method rental properties	**$**	$ 7,662	**$ 2,106**	$ 7,662

(2) Included in the amounts above are the following amounts for the three and six months ended July 31, 2007 and 2006 related to the Company s investment in an entity that is reported in the Nets segment. This entity primarily reports on the operations of the New Jersey Nets basketball team, a franchise of the National Basketball Association, in which the Company has been an equity method investor since August 16, 2004. Summarized financial information for this equity method investment is as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2007	2006	**2007**	2006
	(in thousands)		*(in thousands)*	
Operations:				
Revenues and interest income	**$ 15,248**	$ 19,664	**$ 57,606**	$ 60,502
Operating expenses	**(19,081)**	(21,692)	**(67,097)**	(65,230)
Interest expense	**(1,787)**	(3,420)	**(4,464)**	(6,233)
Depreciation and amortization	**(3,841)**	(3,967)	**(24,369)**	(24,595)
Net loss (pre-tax)	**$ (9,461)**	$ (9,415)	**$ (38,324)**	$ (35,556)
Company s portion of net loss (pre-tax)	**$ (1,339)**	$ (3,087)	**$ (4,009)**	$ (10,969)

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Forest City Enterprises, Inc. and Subsidiaries
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J. Segment Information

The Company uses a measure defined as Earnings Before Depreciation, Amortization and Deferred Taxes (EBDT) to report its operating results. EBDT is defined as net earnings excluding the following items: i) gain (loss) on disposition of rental properties, division and other investments (net of tax); ii) the adjustment to recognize rental revenues and rental expense using the straight-line method; iii) non-cash charges for real estate depreciation, amortization, amortization of mortgage procurement costs and deferred income taxes; iv) preferred payment which is classified as minority interest expense in the Company s Consolidated Statement of Earnings; v) provision for decline in real estate (net of tax); vi) extraordinary items (net of tax); and vii) cumulative effect of change in accounting principle (net of tax).

The Company believes that, although its business has many facets such as development, acquisitions, disposals and property management, the core of its business is the recurring operations of its portfolio of real estate assets. The Company s Chief Executive Officer (CEO), the chief operating decision maker, uses EBDT, as presented, to assess performance of its portfolio of real estate assets by operating segment because it provides information on the financial performance of the core real estate portfolio operations. EBDT tells the CEO how profitable a real estate segment is simply by operating for the sole purpose of collecting rent, paying operating expenses and servicing its debt. The Company s segments adhere to the accounting policies further described in Note A.

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J. Segment Information (continued)

The following tables summarize financial data for the following strategic business units: Commercial Group, Residential Group, Land Development Group and the following additional segments: The Nets (an equity method investment) and Corporate Activities. All amounts are presented in thousands.

	July 31, 2007	January 31, 2007	**Three Months Ended July 31, 2007**	2006	**Six Months Ended July 31, 2007**	2006
	Identifiable Assets		Expenditures for Additions to Real Estate			
Commercial Group	**$6,794,944**	$6,346,155	**$251,168**	$101,350	**$ 492,993**	$ 287,758
Residential Group	**2,211,466**	2,032,617	**153,779**	30,882	**220,857**	69,736
Land Development Group	**410,817**	371,729	**14,408**	2,090	**14,755**	6,327
The Nets	**28,791**	7,999				
Corporate Activities	**112,005**	223,104	**200**	63	**1,038**	131
	$9,558,023	$8,981,604	**$419,555**	$134,385	**$ 729,643**	$ 363,952

	Three Months Ended July 31, 2007	2006	**Six Months Ended July 31, 2007**	2006	**Three Months Ended July 31, 2007**	2006	**Six Months Ended July 31, 2007**	2006
	Revenues from Real Estate Operations				Operating Expenses			
Commercial Group	**$209,162**	$176,935	**$406,596**	$352,285	**$107,175**	$ 89,850	**$209,724**	$177,229
Commercial Group Land Sales	**1,564**	4,207	**7,157**	25,196	**1,905**	3,297	**5,171**	14,650
Residential Group	**62,254**	47,593	**116,859**	92,173	**44,901**	33,410	**81,704**	62,037
Land Development Group	**14,606**	22,094	**25,339**	42,910	**13,981**	12,521	**26,078**	25,520
The Nets								
Corporate Activities					**9,224**	10,488	**23,101**	18,277
	$287,586	$250,829	**$555,951**	$512,564	**$177,186**	$149,566	**$345,778**	$297,713

	Interest and Other Income				Interest Expense			
Commercial Group	**$ 8,295**	$2,374	**$10,233**	$ 3,259	**$43,733**	$44,726	**$ 91,102**	$ 88,097
Residential Group	**11,785**	1,303	**15,629**	11,192	**11,949**	11,716	**25,231**	21,939
Land Development Group	**2,968**	4,066	**7,978**	7,612	**68**	2,643	**2,374**	4,472

The Nets								
Corporate Activities	**375**	127	**982**	654	**16,958**	12,607	**30,800**	22,780
	$23,423	$7,870	**$34,822**	$22,717	**$72,708**	$71,692	**$149,507**	$137,288

	Depreciation and Amortization Expense			
Commercial Group	**$40,017**	$30,390	**$ 85,606**	$59,496
Residential Group	**14,915**	10,787	**28,378**	21,585
Land Development Group	**143**	60	**321**	105
The Nets				
Corporate Activities	**666**	334	**1,223**	673
	$55,741	$41,571	**$115,528**	$81,859

	Earnings Before Income Taxes (EBIT) [1]				Earnings Before Depreciation, Amortization & Deferred Taxes (EBDT)			
Commercial Group	**$ 27,449**	$ 15,984	**$ 30,589**	$ 40,593	**$ 60,062**	$ 45,188	**$104,863**	$ 93,785
Gain on disposition of equity method property		7,662		7,662				
Provision for decline in real estate		(1,923)		(1,923)				
Provision for decline in real estate recorded on equity method		(400)		(400)				
Residential Group	**3,446**	(13,265)	**(698)**	(8,484)	**26,077**	13,877	**38,567**	37,692
Gain on disposition of equity method property			**2,106**					
Land Development Group	**6,472**	17,102	**7,129**	33,422	**3,478**	10,581	**781**	17,431
The Nets	**(2,226)**	(4,041)	**(5,477)**	(12,742)	**(1,419)**	(2,201)	**(3,469)**	(7,576)
Corporate Activities	**(26,042)**	(23,302)	**(53,711)**	(41,076)	**(16,992)**	(10,780)	**(35,007)**	(21,328)
	$ 9,099	$ (2,183)	**$(20,062)**	$ 17,052	**$ 71,206**	$ 56,665	**$105,735**	$120,004

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J. Segment Information (continued)

Reconciliation of Earnings Before Depreciation, Amortization and Deferred Taxes (EBDT) to Net Earnings by Segment:

Three Months Ended July 31, 2007	Commercial Group	Residential Group	Land Development Group	The Nets	Corporate Activities	Total
EBDT	**$ 60,062**	**$ 26,077**	**$ 3,478**	**$(1,419)**	**$(16,992)**	**$ 71,206**
Depreciation and amortization Real Estate Groups	**(41,920)**	**(19,469)**	**(180)**			**(61,569)**
Amortization of mortgage procurement costs Real Estate Groups	**(2,089)**	**(1,269)**	**(146)**			**(3,504)**
Deferred taxes Real Estate Groups	**(4,084)**	**2,735**	**476**		**1,834**	**961**
Straight-line rent adjustment	**3,452**	**18**				**3,470**
Preference payment [3]	**(936)**					**(936)**
Preferred return on disposition		**(5,034)**				**(5,034)**
Gain on disposition of other investments, net of tax					**264**	**264**
Discontinued operations, net of tax and minority interest: [2]						
Depreciation and amortization Real Estate Groups		**(921)**				**(921)**
Amortization of mortgage procurement costs Real Estate Groups		**(34)**				**(34)**
Deferred taxes Real Estate Groups		**(3,310)**				**(3,310)**
Gain on disposition of rental properties		**67,182**				**67,182**
Net earnings (loss)	**$ 14,485**	**$ 65,975**	**$ 3,628**	**$(1,419)**	**$(14,894)**	**$ 67,775**
Three Months Ended July 31, 2006						
EBDT	$ 45,188	$ 13,877	$10,581	$(2,201)	$(10,780)	$ 56,665
Depreciation and amortization Real Estate Groups	(30,336)	(20,564)	(43)			(50,943)
Amortization of mortgage procurement costs Real Estate Groups	(1,751)	(583)				(2,334)
Deferred taxes Real Estate Groups	(4,927)	1,769	(784)		383	(3,559)
Straight-line rent adjustment	2,183	8				2,191
Provision for decline in real estate, net of tax and minority interest	(1,180)					(1,180)
	4,700					4,700

Gain on disposition of equity method rental properties, net of tax						
Provision for decline in real estate of equity method rental properties, net of tax	(245)					(245)
Discontinued operations, net of tax and minority interest: [2]						
Depreciation and amortization Real Estate Groups	(1,480)	(1,962)				(3,442)
Amortization of mortgage procurement costs Real Estate Groups	(46)	(66)				(112)
Deferred taxes Real Estate Groups	(318)	202				(116)
Straight-line rent adjustment	(291)					(291)
Gain on disposition of rental properties	1,652	4,506				6,158
Net earnings (loss)	$ 13,149	$ (2,813)	$ 9,754	$(2,201)	$(10,397)	$ 7,492
Six Months Ended July 31, 2007						
EBDT	**$104,863**	**$ 38,567**	**$ 781**	**$(3,469)**	**$(35,007)**	**$ 105,735**
Depreciation and amortization Real Estate Groups	**(88,346)**	**(36,425)**	**(294)**			**(125,065)**
Amortization of mortgage procurement costs Real Estate Groups	**(4,115)**	**(1,986)**	**(287)**			**(6,388)**
Deferred taxes Real Estate Groups	**(3,614)**	**7,343**	**3,661**		**4,995**	**12,385**
Straight-line rent adjustment	**7,599**	**22**	**(1)**			**7,620**
Preference payment [3]	**(1,834)**					**(1,834)**
Preferred return on disposition		**(5,034)**				**(5,034)**
Gain on disposition of other investments, net of tax					**264**	**264**
Gain on disposition of equity method rental properties, net of tax		**1,292**				**1,292**
Discontinued operations, net of tax and minority interest: [2]						
Depreciation and amortization Real Estate Groups		**(1,934)**				**(1,934)**
Amortization of mortgage procurement costs Real Estate Groups		**(69)**				**(69)**
Deferred taxes Real Estate Groups		**(3,560)**				**(3,560)**
Gain on disposition of rental properties		**67,182**				**67,182**
Net earnings (loss)	**$ 14,553**	**$ 65,398**	**$ 3,860**	**$(3,469)**	**$(29,748)**	**$ 50,594**
Six Months Ended July 31, 2006						
EBDT	$ 93,785	$ 37,692	$17,431	$(7,576)	$(21,328)	$ 120,004

Depreciation and amortization Real Estate Groups	(59,844)	(34,583)	(74)			(94,501)
Amortization of mortgage procurement costs Real Estate Groups	(3,717)	(1,403)				(5,120)
Deferred taxes Real Estate Groups	(11,509)	(1,196)	2,069		(94)	(10,730)
Straight-line rent adjustment	3,700	19	(1)			3,718
Provision for decline in real estate, net of tax and minority interest	(1,180)					(1,180)
Gain on disposition of equity method rental properties, net of tax	4,700					4,700
Provision for decline in real estate of equity method rental properties, net of tax	(245)					(245)
Discontinued operations, net of tax and minority interest: (2)						
Depreciation and amortization Real Estate Groups	(3,159)	(3,925)				(7,084)
Amortization of mortgage procurement costs Real Estate Groups	(100)	(135)				(235)
Deferred taxes Real Estate Groups	(318)	67				(251)
Straight-line rent adjustment	(687)					(687)
Gain on disposition of rental properties	47,855	4,506				52,361
Net earnings (loss)	$ 69,281	$ 1,042	$ 19,425	$ (7,576)	$ (21,422)	$ 60,750

(1) See Consolidated Statements of Earnings on page 3 for reconciliation of EBIT to net earnings.

(2) See Note C Discontinued Operations starting on page 14 for more information.

(3) The preference payment of $936,000 and $1,834,000 for the three and six months ended

July 31, 2007, respectively, represents the respective period s share of the annual preferred payment in connection with the issuance of Class A Common Units in exchange for Bruce C. Ratner s minority interests in the Forest City Ratner Company portfolio.

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K. Income Taxes

Income tax benefit for the three months ended July 31, 2007 and 2006 was $609,000 and $3,679,000, respectively, and $14,649,000 for the six months ended July 31, 2007. Income tax expense for the six months ended July 31, 2006 was $3,468,000. The difference in the income tax benefit or expense reflected in the Consolidated Statements of Earnings versus the income tax benefit or expense computed at the statutory federal income tax rate is primarily attributable to state income taxes, additional general business credits, changes to the Company s charitable contribution and state NOL valuation allowances based upon management s assessment of the Company s ability to utilize such deferred tax assets, and various permanent differences between pre-tax GAAP income and taxable income. At January 31, 2007, the Company had a net operating loss carryforward for tax purposes of $90,825,000 (generated primarily from the impact on the Company s net earnings of tax depreciation expense from real estate properties) that will expire in the years ending January 31, 2022 through January 31, 2027, a charitable contribution deduction carryforward of $37,942,000 that will expire in the years ending January 31, 2008 through January 31, 2012, general business credit carryovers of $12,865,000 that will expire in the years ending January 31, 2008 (approximately $38,000) through 2027 and an alternative minimum tax (AMT) credit carryforward of $27,067,000 that is available to be used to reduce Federal tax to the AMT amount. The Company has a full valuation allowance against the deferred tax asset associated with its charitable contributions because management believes at this time that it is more likely than not that the Company will not realize these benefits. The Company s policy is to consider a variety of tax-deferral strategies, including tax deferred exchanges, when evaluating its future tax position.

The Company applies the with-and-without methodology for recognizing excess tax benefits from the deduction of stock-based compensation. The carryforwards reported in the preceding paragraph reflect the amounts that will be presented on the January 31, 2007 tax return and include a stock-based compensation deduction of $26,129,000. Under the with-and-without approach, no excess tax benefit from stock-based compensation is recorded until the Company has utilized its existing net operating losses. Accordingly, the Company has not recorded a net deferred tax asset of approximately $7,797,000 from excess stock-based compensation deductions.

FIN No. 48

On July 13, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN No. 48) prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under FIN No. 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without considering time values.

The Company adopted the provisions of FIN No. 48 effective February 1, 2007. Unrecognized tax benefits represent those tax benefits related to tax positions that have been taken or are expected to be taken in tax returns that are not recognized in the financial statements because management has either concluded that it is not more likely than not that the tax position will be sustained if audited by the appropriate taxing authority or the amount of the benefit will be less than the amount taken or expected to be taken in the Company s income tax returns. The effect of this adoption on February 1, 2007 resulted in a cumulative effect adjustment of $245,000 as an increase to beginning retained earnings.

The Company recognizes estimated interest payable on underpayments of income taxes and estimated penalties that may result from the settlement of some uncertain tax positions as components of income tax expense. The Company files a consolidated United States federal income tax return. Where applicable, the Company files combined income tax returns in various states and it files individual separate income tax returns in other states. The Company s federal consolidated income tax returns for the year ended January 31, 2003 and subsequent years are subject to examination by the Internal Revenue Service. Certain of the Company s state returns for the year ended January 31, 2003 and all subsequent year state returns are subject to examination by various taxing authorities.

During the three months ended July 31, 2007, the Company settled examinations on two of its partnerships. A summary of the Company s FIN No. 48 position at the date of adoption, February 1, 2007, and as of July 31, 2007 is

depicted in the following table:

	July 31, 2007	February 1, 2007
Unrecognized tax benefits	**$ 4,523,000**	$ 4,892,000
Portion that, if recognized, would impact the effective rate	**$ 886,000**	$ 844,000
Accrued interest and penalties on unrecognized tax benefits	**$ 1,000,000**	$ 1,013,000
Range of possible decrease in unrecognized tax benefits in next twelve months	**$ 0 to $3,500,000**	$ 0 to $3,900,000

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of Forest City Enterprises, Inc. and subsidiaries should be read in conjunction with the financial statements and the footnotes thereto contained in the annual report on Form 10-K for the year ended January 31, 2007.

RESULTS OF OPERATIONS

We report our results of operations by each of our three strategic business units as we believe this provides the most meaningful understanding of our financial performance. In addition to our three strategic business units, we have two additional segments: the Nets and Corporate Activities.

Corporate Description

We principally engage in the ownership, development, management and acquisition of commercial and residential real estate and land throughout the United States. We operate through three strategic business units. The Commercial Group, our largest business unit, owns, develops, acquires and operates regional malls, specialty/urban retail centers, office and life science buildings, hotels and mixed-use projects. The Residential Group owns, develops, acquires and operates residential rental property, including upscale and middle-market apartments and adaptive re-use developments. Additionally, the Residential Group develops for-sale condominium projects and also owns interests in entities that develop and manage military family housing. New York City operations are part of the Commercial Group or Residential Group depending on the nature of the operations. The Land Development Group acquires and sells both land and developed lots to residential, commercial and industrial customers. It also owns and develops land into master-planned communities and mixed-use projects. Real Estate Groups are the combined Commercial, Residential and Land Development Groups. The Nets, a franchise of the National Basketball Association (NBA) in which we account for our investment on the equity method of accounting, is a reportable segment of the Company.

We have approximately $9.5 billion of assets in 25 states and the District of Columbia at July 31, 2007. Our core markets include New York City/Philadelphia metropolitan area, Denver, Boston, Greater Washington D.C./Baltimore metropolitan area, Chicago and California. We have offices in Boston, Chicago, Denver, Los Angeles, London (England), New York City, San Francisco, Washington, D.C., and our corporate headquarters are in Cleveland, Ohio.

Overview

Significant milestones occurring during the second quarter of 2007 included:

- The opening of *Victoria Gardens Bass Pro*, a retail store located in Rancho Cucamonga, California;
- The acquisition of *Richmond Office Park*, an eleven building office park totaling 571,000 square feet located in Richmond, Virginia;
- The opening of Mercury, a 238-unit condominium project located in Los Angeles, California;
- The opening of Botanica II, a 154-unit apartment community located at our Stapleton development in Denver, Colorado;
- The acquisition of *Tobacco Row Cameron Kinney*, a 259-unit apartment community located in Richmond, Virginia;
- Selected to manage more than 400 Air Force Academy housing units in Colorado Springs, Colorado;
- Sold seven supported-living apartment properties located in the New York City/Philadelphia metropolitan area; and
- Closing $471 million in mortgage financing transactions at attractive interest rates.

In June 2007, our 13-member bank group approved an amended and restated bank revolving credit facility. The amended facility extends the maturity date until March 2010 and reduces the spread on the LIBOR rate option by 30 basis points to 1.45%. Among other transactional provisions, the amended facility contains an accordion provision

that allows us, subject to bank approval, to increase our availability by $150,000,000 to $750,000,000 at any time prior to maturity.

We have a track record of past successes and a strong pipeline of future opportunities. With a balanced portfolio concentrated in the product types and geographic markets that offer many unique, financially rewarding opportunities, we appear to be well positioned for future growth.

Net Earnings Net earnings for the three months ended July 31, 2007 was $67,775,000 versus $7,492,000 for the three months ended July 31, 2006. Although we have substantial recurring revenue sources from our properties, we also enter into significant one-time transactions, which could create substantial variances in net earnings between periods. This variance to the prior year is primarily attributable to the following increases, which are net of tax and minority interest:

$67,182,000 ($106,318,000, pre-tax) related to the 2007 gains on disposition of *Landings of Brentwood*, a consolidated apartment community in Nashville, Tennessee and the following six consolidated supported-living apartment communities: *Sterling Glen of Bayshore*, in Bayshore, New York, *Sterling Glen of Center City*, in Philadelphia, Pennsylvania, *Sterling Glen of Darien*, in Darien, Connecticut, *Sterling Glen of Forest Hills*, in Forest Hills, New York, *Sterling Glen of Plainview*, in Plainview, New York, and *Sterling Glen of Stamford*, in Stamford, Connecticut;

$6,191,000 ($10,090,000, pre-tax) related to the 2007 net gain recognized in other income on the sale of *Sterling Glen of Roslyn*, a consolidated supported-living apartment community under construction in Roslyn, New York;

$5,686,000 ($9,267,000, pre-tax) in 2007 related to the increase in fair market value between the comparable periods of certain of our 10-year forward swaps which were marked to market through interest expense as a result of the derivatives not qualifying for hedge accounting (See the Interest Rate Exposure section);

$1,024,000 ($1,669,000, pre-tax) related to the amortization to straight-line rent of above and below market leases, which were recorded as a component of the purchase price allocation for the acquisition, in November 2006, of 30 retail, office and residential operating properties in New York City (New York portfolio transaction);

$782,000 ($1,815,000, pre-tax) related to the decrease in our allocation of losses from our equity investment in the New Jersey Nets basketball team (see the Nets section); and

$545,000 ($888,000, pre-tax) related to income recognition on federal Historic Preservation Tax Credits.

These increases were partially offset by the following decreases, net of tax and minority interest:

$6,158,000 ($10,035,000, pre-tax) primarily related to the 2006 gain on disposition of *Providence at Palm Harbor*, a consolidated apartment community located in Tampa, Florida;

$6,126,000 ($9,738,000, pre-tax) related to decreased earnings in 2007 reported in the Land Development Group primarily due to a decrease in land sales at *Stapleton*, in Denver, Colorado and *Chestnut Commons* in Elyria, Ohio;

$4,700,000 ($7,662,000, pre-tax) related to the 2006 gain on disposition of one equity method Commercial property, *Midtown Plaza*, a specialty retail center located in Parma, Ohio;

$1,762,000 ($2,872,000, pre-tax) related to increased write-offs of abandoned development projects in 2007;

$1,481,000 ($2,414,000, pre-tax) related to an increase in depreciation and amortization for amounts recorded as tangible and intangible assets, which were a result of the purchase price allocation for the New York portfolio transaction that closed in November 2006;

$1,124,000 ($1,832,000, pre-tax) in 2007 related to the early extinguishment of nonrecourse mortgage debt primarily at the *Landings of Brentwood* due to the sale of the property; and

$658,000 ($1,072,000, pre-tax) related to decreases in Commercial Group outlot land sales in 2007 primarily at *Antelope Valley Mall* in Palmdale, California.

Net earnings for the six months ended July 31, 2007 was $50,594,000 versus $60,750,000 for the six months ended July 31, 2006. This variance to the prior year is primarily attributable to the following decreases, which are net of tax and minority interest:

$52,361,000 ($85,333,000, pre-tax) related to the 2006 gains on disposition of three consolidated properties, *Providence at Palm Harbor*, *Hilton Times Square*, a 444-room hotel located in Manhattan, New York, and *G Street*, a specialty retail center located in Philadelphia, Pennsylvania;

$15,565,000 ($25,236,000, pre-tax) related to decreased earnings in 2007 reported in the Land Development Group primarily due to a decrease in land sales at *Stapleton*, *Waterbury* in North Ridgeville, Ohio, *Chestnut Commons* and *Tangerine Crossing* in Tucson, Arizona;

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$5,376,000 ($8,761,000, pre-tax) related to decreases in Commercial Group outlot land sales in 2007 primarily at *Simi Valley* in Simi Valley, California, and *Antelope Valley Mall*, which was partially offset by an increase in land sales in 2007 at *Victoria Gardens* in Rancho Cucamonga, California;

$4,809,000 ($7,837,000, pre-tax) related to management s approved plan to demolish two buildings owned by us adjacent to *Ten MetroTech Center*, an office building located in Brooklyn, New York, to clear the land for a residential project named *80 DeKalb Avenue*. Due to this new development plan, the estimated useful lives of the two adjacent buildings were adjusted to expire at the scheduled demolition date in April 2007 resulting in accelerated depreciation expense;

$4,700,000 ($7,662,000, pre-tax) related to the 2006 gain on disposition of *Midtown Plaza,* an equity method Commercial property;

$4,333,000 ($7,062,000, pre-tax) related to income recognition on state and federal Historic Preservation Tax Credits in 2006 that did not recur at the same level;

$3,112,000 ($5,072,000, pre-tax) related to an increase in depreciation and amortization for amounts recorded as tangible and intangible assets, which were a result of the purchase price allocation for the New York portfolio transaction that closed in November 2006;

$2,928,000 ($4,773,000, pre-tax) related to increased write-offs of abandoned development projects in 2007; and

$1,889,000 ($3,078,000, pre-tax) in 2007 related to the early extinguishment of nonrecourse mortgage debt primarily at *Columbia Park Center*, a specialty retail center located in North Bergen, New Jersey in order to secure more favorable financing terms and at the *Landings of Brentwood* due to the sale of the property.

These decreases were partially offset by the following increases, net of tax and minority interest:

$67,182,000 ($106,318,000, pre-tax) related to the 2007 gains on disposition of *Landings of Brentwood*, *Sterling Glen of Bayshore*, *Sterling Glen of Center City*, *Sterling Glen of Darien*, *Sterling Glen of Forest Hills*, *Sterling Glen of Plainview*, and *Sterling Glen of Stamford*;

$6,191,000 ($10,090,000, pre-tax) related to the 2007 net gain recognized in other income on the sale of *Sterling Glen of Roslyn*;

$4,798,000 ($7,820,000, pre-tax) in 2007 related to the increase in fair market value between the comparable periods of certain of our 10-year forward swaps which were marked to market through interest expense as a result of the derivatives not qualifying for hedge accounting (See the Interest Rate Exposure section);

$4,107,000 ($7,265,000, pre-tax) related to the decrease in our allocation of losses from our equity investment in the New Jersey Nets basketball team (see the Nets section);

$2,167,000 ($3,531,000, pre-tax) related to the amortization to straight-line rent of above and below market leases, which were recorded as a component of the purchase price allocation for the New York portfolio transaction; and

$1,292,000 ($2,106,000, pre-tax) related to the 2007 gain on disposition of one equity method Residential property, *White Acres*, an apartment community located in Richmond Heights, Ohio.

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Summary of Segment Operating Results The following tables present a summary of revenues from real estate operations, interest and other income, equity in earnings (loss) of unconsolidated entities, operating expenses and interest expense incurred by each segment for the three and six months ended July 31, 2007 and 2006, respectively. See discussion of these amounts by segment in the narratives following the tables.

	Three Months Ended July 31,			Six Months Ended July 31,		
	2007	2006	Variance	**2007**	2006	Variance
		(in thousands)			*(in thousands)*	
Revenues from Real Estate Operations						
Commercial Group	**$209,162**	$176,935	$32,227	**$406,596**	$352,285	$ 54,311
Commercial Group Land Sales	**1,564**	4,207	(2,643)	**7,157**	25,196	(18,039)
Residential Group	**62,254**	47,593	14,661	**116,859**	92,173	24,686
Land Development Group	**14,606**	22,094	(7,488)	**25,339**	42,910	(17,571)
The Nets						
Corporate Activities						
Total Revenues from Real Estate Operations	**$287,586**	$250,829	$36,757	**$555,951**	$512,564	$ 43,387
Interest and Other Income						
Commercial Group	**$ 8,295**	$ 2,374	$ 5,921	**$ 10,233**	$ 3,259	$ 6,974
Residential Group	**11,785**	1,303	10,482	**15,629**	11,192	4,437
Land Development Group	**2,968**	4,066	(1,098)	**7,978**	7,612	366
The Nets						
Corporate Activities	**375**	127	248	**982**	654	328
Total Interest and Other Income	**$ 23,423**	$ 7,870	$15,553	**$ 34,822**	$ 22,717	$ 12,105
Equity in Earnings (Loss) of Unconsolidated Entities						
Commercial Group	**$ 3,746**	$ 2,240	$ 1,506	**$ 5,213**	$ 3,758	$ 1,455
Gain on disposition of *Midtown*		7,662	(7,662)		7,662	(7,662)
Residential Group	**3,055**	(5,815)	8,870	**4,521**	(5,176)	9,697
Gain on disposition of *White Acres*				**2,106**		2,106
Land Development Group	**3,198**	6,264	(3,066)	**2,771**	13,187	(10,416)
The Nets	**(2,226)**	(4,041)	1,815	**(5,477)**	(12,742)	7,265

Corporate Activities						
Total Equity in Earnings (Loss) of Unconsolidated Entities	**$ 7,773**	$ 6,310	$ 1,463	**$ 9,134**	$ 6,689	$ 2,445
Operating Expenses						
Commercial Group	**$107,175**	$ 89,850	$17,325	**$209,724**	$177,229	$ 32,495
Cost of Commercial Group Land Sales	**1,905**	3,297	(1,392)	**5,171**	14,650	(9,479)
Residential Group	**44,901**	33,410	11,491	**81,704**	62,037	19,667
Land Development Group	**13,981**	12,521	1,460	**26,078**	25,520	558
The Nets						
Corporate Activities	**9,224**	10,488	(1,264)	**23,101**	18,277	4,824
Total Operating Expenses	**$177,186**	$149,566	$27,620	**$345,778**	$297,713	$ 48,065
Interest Expense						
Commercial Group	**$ 43,733**	$ 44,726	$ (993)	**$ 91,102**	$ 88,097	$ 3,005
Residential Group	**11,949**	11,716	233	**25,231**	21,939	3,292
Land Development Group	**68**	2,643	(2,575)	**2,374**	4,472	(2,098)
The Nets						
Corporate Activities	**16,958**	12,607	4,351	**30,800**	22,780	8,020
Total Interest Expense	**$ 72,708**	$ 71,692	$ 1,016	**$149,507**	$137,288	$ 12,219

Commercial Group

Revenues from real estate operations Revenues from real estate operations for the Commercial Group, including the segment s land sales, increased by $29,584,000, or 16.33%, for the three months ended July 31, 2007 compared to the same period in the prior year. This increase was primarily the result of:

- Increase of $9,243,000 related to new property openings, as noted in the table on page 35;
- Increase of $5,747,000 related to the buyout of our partner in the third quarter of 2006 in *Galleria at Sunset*, a regional mall in Henderson, Nevada, previously accounted for on the equity method of accounting;
- Increase of $2,237,000 related to an increase in rents primarily at the following regional malls: *Victoria Gardens*, *Simi Valley Town Center*, *Promenade in Temecula*, *South Bay Galleria* and *Antelope Valley*, all of which are located in California;
- Increase of $1,669,000 related to the amortization to straight-line rent of above and below market leases, which were recorded as a component of the purchase price allocation for the New York portfolio transaction;
- Increase of $1,490,000 related to revenues earned on a construction contract with the New York City School Construction Authority for the construction of a school at *Beekman*, a development project in Manhattan, New York;
- Increase of $909,000 primarily related to increases in occupancy and rates in our hotel portfolio; and
- Increase of $580,000 primarily related to reduced vacancies at *42nd Street Retail*, a specialty retail center located in New York and *Short Pump Town Center* located in Richmond, Virginia.

These increases were partially offset by the following decrease:

- Decrease of $2,642,000 ($2,206,000, net of minority interest) related to a decrease in commercial outlot land sales primarily at *Orchard Town Center* in Westminster, Colorado and *Antelope Valley Mall*.

The balance of the remaining increase in revenues from real estate operations of approximately $10,351,000 was generally due to fluctuations in mature properties.

Revenues from real estate operations for the Commercial Group, including the segment s land sales, increased by $36,272,000, or 9.61%, for the six months ended July 31, 2007 compared to the same period in the prior year. This increase was primarily the result of:

- Increase of $14,246,000 related to new property openings, as noted in the table on page 35;
- Increase of $10,849,000 related to the buyout of our partner in the third quarter of 2006 in *Galleria at Sunset*, which was previously accounted for on the equity method of accounting;
- Increase of $5,590,000 related to an increase in rents primarily at the following regional malls: *Victoria Gardens*, *Simi Valley Town Center*, *Promenade in Temecula*, *South Bay Galleria* and *Antelope Valley*;
- Increase of $3,531,000 related to the amortization to straight-line rent of above and below market leases, which were recorded as a component of the purchase price allocation for the New York portfolio transaction;
- Increase of $2,090,000 related to revenues earned on a construction contract with the New York City School Construction Authority for the construction of a school at *Beekman*;
- Increase of $1,823,000 primarily related to reduced vacancies at *42nd Street Retail* and *Short Pump Town Center*; and

Increase of $1,302,000 primarily related to increases in occupancy and rates in our hotel portfolio.

These increases were partially offset by the following decrease:

Decrease of $18,038,000 ($18,696,000, net of minority interest) related to a decrease in commercial outlot land sales primarily at *Promenade Bolingbrook*, *Simi Valley*, *Orchard Town Center* and Salt Lake City.

The balance of the remaining increase in revenues from real estate operations of approximately $14,879,000 was generally due to fluctuations in mature properties.

Operating and Interest Expenses Operating expenses increased $15,933,000, or 17.11%, for the three months ended July 31, 2007 compared to the same period in the prior year. This increase was primarily the result of:

- Increase of $7,204,000 related to new property openings, as noted in the table on page 35;
- Increase of $1,551,000 related to write-offs of abandoned development projects that we believed were no longer probable of occurring;
- Increase of $1,490,000 related to construction of a school at *Beekman*. These costs are reimbursed by the New York City School Construction Authority, which is included in revenues from real estate operations as discussed above;
- Increase of $1,367,000 related to the buyout of our partner in the third quarter of 2006 in *Galleria at Sunset*, which was previously accounted for on the equity method of accounting;
- Increase of $871,000 related to the appeal of our application to secure a gaming license in Pennsylvania;
- Increase of $620,000 related to straight-line rent resulting from the amortization of above and below market ground leases which were recorded as a component of the purchase price allocation for the New York portfolio transaction;
- Increase of $464,000 primarily related to increases in occupancy at *Victoria Gardens*; and
- Increase of $143,000 primarily related to increases in occupancy in our hotel portfolio.

These increases were partially offset by the following decrease:

- Decrease of $1,392,000 ($1,112,000, net of minority interest) related to a decrease in commercial outlot land sales primarily at *Antelope Valley* and *Orchard Town Center*.

The balance of the remaining increase in operating expenses of approximately $3,615,000 was generally due to fluctuations in mature properties and general operating activities.

Operating expenses increased $23,016,000, or 12%, for the six months ended July 31, 2007 compared to the same period in the prior year. This increase was primarily the result of:

- Increase of $11,200,000 related to new property openings, as noted in the table on page 35;
- Increase of $2,867,000 related to the buyout of our partner in *Galleria at Sunset*, which was previously accounted for on the equity method of accounting;
- Increase of $2,090,000 related to construction of a school at *Beekman*. These costs are reimbursed by the New York City School Construction Authority, which is included in revenues from real estate operations as discussed above;
- Increase of $2,037,000 related to write-offs of abandoned development projects that we believed were no longer probable of occurring;
- Increase of $1,134,000 related to the appeal of our application to secure a gaming license in Pennsylvania;
- Increase of $998,000 primarily related to increases in occupancy at *Victoria Gardens*;
- Increase of $714,000 related to straight-line rent resulting from the amortization of above and below market ground leases, which were recorded as a component of the purchase price allocation for the New York portfolio transaction;

- Increase of $600,000 primarily related to the write-off of costs associated with a potential acquisition in 2007, which is no longer being pursued; and

- Increase of $373,000 primarily related to increases in occupancy in our hotel portfolio.

These increases were partially offset by the following decrease:

- Decrease of $9,479,000 ($9,859,000, net of minority interest) related to a decrease in commercial outlot land sales primarily at *Promenade Bolingbrook*, *Simi Valley*, *Orchard Town Center* and Salt Lake City.

The balance of the remaining increase in operating expenses of approximately $10,482,000 was generally due to fluctuations in mature properties and general operating activities.

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Interest expense for the Commercial Group decreased by $993,000, or 2.22%, for the three months ended July 31, 2007 compared to the same period in the prior year. Interest expense for the Commercial Group increased by $3,005,000, or 3.41%, for the six months ended July 31, 2007 compared to the same period in the prior year. The fluctuations in interest expense for the three and six months ended July 31, 2007 is primarily attributable to the favorable change in fair value between comparable periods of 10-year forward swaps that did not receive hedge accounting offset by increased interest expense on the openings of the properties listed below.

The following table presents the increases in revenue and operating expenses incurred by the Commercial Group for newly-opened/acquired properties for the three and six months ended July 31, 2007 compared to the same period in the prior year (dollars in thousands):

				Three Months Ended		Six Months Ended	
				July 31, 2007			
Property	Location	Quarter/Year Opened or Acquired	Square Feet	Revenue from Real Estate Operations	Operating Expenses	Revenue from Real Estate Operations	Operating Expenses
Retail Centers:							
Victoria Gardens-Bass Pro [3]	Rancho Cucamonga, California	Q2-2007	180,000	$ 780	$	$ 780	$
Promenade Bolingbrook [2]	Bolingbrook, Illinois	Q1-2007	755,000	2,742	1,853	2,742	2,684
Northfield at Stapleton	Denver, Colorado	Q4-2005/Q1-2006/ Q3-2006	1,170,000	1,686	2,256	3,991	4,031
Office Buildings:							
Richmond Office Park [4]	Richmond, Virginia	Q2-2007 [1]	571,000	210		210	
Illinois Science and Technology Park-Building Q	Skokie, Illinois	Q1-2007	160,000	288	331	288	334
Colorado Studios	Denver, Colorado	Q1-2007 [1]	75,000	105	47	105	47
Commerce Court	Pittsburgh, Pennsylvania	Q1-2007 [1]	378,000	1,750	1,106	2,789	1,550
Illinois Science and Technology Park Building A	Skokie, Illinois	Q4-2006	225,000	888	614	1,735	1,089
Illinois Science and Technology Park Building P	Skokie, Illinois	Q4-2006	127,000	223	444	435	704
Edgeworth Building	Richmond, Virginia	Q4-2006	142,000	347	411	752	577
Stapleton Medical Office Building	Denver, Colorado	Q3-2006	45,000	224	142	419	184

Total	$9,243	$ 7,204	$14,246	$11,200

(1) Acquired property.

(2) This property opened on April 26, 2007.

(3) This property opened on July 18, 2007.

(4) These eleven properties were acquired on July 26, 2007.

Residential Group

Revenues from real estate operations Revenues from real estate operations for the Residential Group increased by $14,661,000, or 30.8%, during the three months ended July 31, 2007 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $6,362,000 related to military housing fee income from the management and development of units in Hawaii and Illinois;

Increase of $5,194,000 related to the buyout of our partners at *Sterling Glen of Glen Cove* in Glen Cove, New York, *Sterling Glen of Great Neck* in Great Neck, New York, *Midtown Towers* in Parma, Ohio and *Village Green* in Beachwood, Ohio previously accounted for on the equity method of accounting;

Increase of $2,236,000 related to new property openings and an acquired property as noted in the table on page 37; and

Increase of $1,957,000 related to an increase in rents and occupancies primarily at the following properties: *Metro 417* in Los Angeles, California, *100 Landsdowne Street* in Cambridge, Massachusetts, *Sterling Glen of Ryebrook* in Ryebrook, New York and *Ashton Mill* in Cumberland, Rhode Island.

These increases were partially offset by the following decrease:

Decrease of $2,100,000 related to the 2006 land sale at *Bridgewater* in Hampton, Virginia.

The balance of the remaining increase of approximately $1,012,000 was generally due to fluctuations in other mature properties.

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Revenues from real estate operations for the Residential Group increased by $24,686,000, or 26.8%, during the six months ended July 31, 2007 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $10,345,000 related to military housing fee income from the management and development of units in Hawaii and Illinois;

Increase of $6,833,000 related to the buyout of our partners at *Sterling Glen of Glen Cove*, *Sterling Glen of Great Neck*, *Midtown Towers* and *Village Green* previously accounted for on the equity method of accounting;

Increase of $4,507,000 related to an increase in rents and occupancies primarily at the following properties: *Metro 417*, *100 Landsdowne Street*, *Sterling Glen of Ryebrook* and *Ashton Mill*; and

Increase of $3,602,000 related to new property openings and an acquired property as noted in the table on page 37.

These increases were partially offset by the following decrease:

Decrease of $2,100,000 related to the 2006 land sale at *Bridgewater*.

The balance of the remaining increase of approximately $1,499,000 was generally due to fluctuations in other mature properties.

Operating and Interest Expenses Operating expenses for the Residential Group increased by $11,491,000, or 34.4%, during the three months ended July 31, 2007 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $5,349,000 related to management expenditures associated with military housing fee income;

Increase of $3,252,000 related to the buyout of our partners at *Sterling Glen of Glen Cove*, *Sterling Glen of Great Neck*, *Midtown Towers* and *Village Green*;

Increase of $1,321,000 in write-offs of abandoned development projects; and

Increase of $516,000 related to new property openings and an acquired property as noted in the table on page 37.

These increases were partially offset by the following decrease:

Decrease of approximately $2,000,000 related to the 2006 land sale at *Bridgewater*.

The balance of the remaining increase of approximately $3,053,000 was generally due to fluctuations in mature properties and general operating activities.

Operating expenses for the Residential Group increased by $19,667,000, or 31.7%, during the six months ended July 31, 2007 compared to the same period in the prior year. This increase was primarily the result of:

Increase of $6,368,000 related to management expenditures associated with military housing fee income;

Increase of $4,459,000 related to the buyout of our partners at *Sterling Glen of Glen Cove*, *Sterling Glen of Great Neck*, *Midtown Towers* and *Village Green*;

Increase of $2,737,000 in write-offs of abandoned development projects; and

Increase of $1,227,000 related to new property openings and an acquired property as noted in the table on page 37.

These increases were partially offset by the following decrease:

Decrease of approximately $2,000,000 related to the 2006 land sale at *Bridgewater*.

The balance of the remaining increase of approximately $6,876,000 was generally due to fluctuations in mature properties and general operating activities.

Interest expense for the Residential Group increased by $233,000, or 2.0%, during the three months ended July 31, 2007 compared to the same period in the prior year and by $3,292,000, or 15.0%, during the six months ended July 31, 2007 compared to the same periods in the prior year. The increase is primarily attributable to openings and the acquisition of the properties in the table on page 37.

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The following table presents the increases in revenues and operating expenses incurred by the Residential Group for newly-opened or acquired properties which have not yet reached stabilization for the three and six months ended July 31, 2007 compared to the same period in the prior year (dollars in thousands):

				Three Months Ended		Six Months Ended	
				July 31, 2007			
Property	Location	Quarter/Year Opened	Number of Units	Revenue from Real Estate Operations	Operating Expenses	Revenue from Real Estate Operations	Operating Expenses
Cameron Kinney	Richmond, Virginia	Q2-2007 (1)	259	$ 704	$ 258	$ 704	$ 258
Botanica II	Denver, Colorado	Q2-2007	154	64	40	64	40
1251 S. Michigan	Chicago, Illinois	Q1-2006	91	173	77	328	223
Sky55	Chicago, Illinois	Q1-2006	411	1,295	141	2,506	706
Total				$2,236	$ 516	$3,602	$ 1,227

(1) Acquired property

Land Development Group

Revenues from real estate operations Land sales and the related gross margins vary from period to period depending on the timing of sales and general market conditions relating to the disposition of significant land holdings. We have an inventory of land that we believe is in good markets throughout the country. Our land sales have been impacted by slowing demand from home buyers in certain core markets for the land business, reflecting conditions throughout the housing industry that are anticipated to continue throughout the year and into 2008. Interest income for the Land Development Group is discussed beginning on page 40. Revenues from real estate operations for the Land Development Group decreased by $7,488,000 for the three months ended July 31, 2007 compared to the same period in the prior year. This decrease is primarily the result of:

Decrease of $11,954,000 in land sales at *Stapleton* in Denver, Colorado; and

Decrease of $745,000 in land sales primarily at three land development projects, *Wheatfield Lake* in Wheatfield, New York, *Chestnut Plaza* in Elyria, Ohio and *Suncoast Lakes* in Pasco County, Florida, combined with several other sales decreases at various land development projects.

These decreases were partially offset by the following increases:

Increase of $2,081,000 in land sales at *Summers Walk* in Davidson, North Carolina;

Increase of $1,625,000 in land sales at *Tangerine Crossing* in Tucson, Arizona;

Increase of $638,000 in land sales at *Rockport Square* in Lakewood, Ohio; and

Increase of $867,000 in land sales primarily at two major land development projects, *Waterbury* in North Ridgeville, Ohio and *Mill Creek* in York County, South Carolina, combined with several other sales increases

at various land development projects.

Revenues from real estate operations for the Land Development Group decreased by $17,571,000 for the six months ended July 31, 2007 compared to the same period in the prior year. This decrease is primarily the result of:

- Decrease of $16,794,000 in land sales at *Stapleton*;

- Decrease of $4,241,000 in land sales at *Waterbury*;

- Decrease of $769,000 in land sales at *Tangerine Crossing*;

- Decrease of $585,000 in land sales at *Suncoast Lakes*; and

- Decrease of $904,000 in land sales primarily at three major land development projects, *Creekstone* in Copley, Ohio, *New Haven* in Barberton, Ohio and *Chestnut Plaza*, combined with several other sales decreases at various land development projects.

These decreases were partially offset by the following increases:

- Increase of $2,445,000 in land sales at *Summers Walk*;

- Increase of $1,760,000 in land sales at *Rockport Square*;

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- Increase of $698,000 in land sales at *Mill Creek*; and

- Increase of $819,000 in land sales primarily at *Mallard Point* in Lorain, Ohio, combined with several other sales increases at various land development projects.

Operating and Interest Expenses Operating expenses increased by $1,460,000 for the three months ended July 31, 2007 compared to the same period in the prior year. This increase is primarily the result of:

- Increase of $1,568,000 at *Summers Walk* primarily related to increased land sales;

- Increase of $1,010,000 at *Tangerine Crossing* primarily related to increased land sales;

- Increase of $856,000 at *Rockport Square* primarily related to increased land sales; and

- Increase of $1,688,000 primarily at *Waterbury*, combined with several other expense increases at various land development projects.

These increases were partially offset by the following decreases:

- Decrease of $2,798,000 at *Stapleton* primarily related to decreased land sales; and

- Decrease of $864,000 primarily related to decreased land sales at two major land development projects, *Wheatfield Lake* combined with several other expense decreases at various land development projects.

Operating expenses increased by $558,000 for the six months ended July 31, 2007 compared to the same period in the prior year. This increase is primarily the result of:

- Increase of $2,263,000 at *Rockport Square* primarily related to increased land sales;

- Increase of $1,823,000 at *Summers Walk* primarily related to increased land sales; and

- Increase of $3,546,000 primarily at *Tangerine Crossing*, *Mill Creek* and *Villages of Central* in Cleveland, Ohio, combined with several other expense increases at various land development projects.

These increases were partially offset by the following decreases:

- Decrease of $4,330,000 at *Stapleton* primarily related to decreased land sales;

- Decrease of $1,184,000 at *Waterbury* primarily related to decreased land sales; and

- Decrease of $1,560,000 primarily related to decreased land sales at three major land development projects, *Creekstone*, *Suncoast Lakes* and *New Haven,* combined with several other expense decreases at various land development projects.

Interest expense decreased by $2,575,000 and $2,098,000, respectively, for the three and six months ended July 31, 2007 compared to the same periods in the prior year. Interest expense varies from year to year depending on the level of interest-bearing debt within the Land Development Group.

The Nets

Our equity investment in the Nets incurred a pre-tax loss of $2,226,000 and $5,477,000 for the three and six months ended July 31, 2007, respectively, representing a decrease in allocated losses of $1,815,000 and $7,265,000 compared to the same periods in the prior year. For the three and six months ended July 31, 2007 and 2006, we recognized approximately 10% and 31% of the net loss, respectively, because profits and losses are allocated to each member based on an analysis of the respective member s claim on the net book equity assuming a liquidation at book value at the end of the accounting period without regard to unrealized appreciation (if any) in the fair value of the Nets. Included in the losses for the six months ended July 31, 2007 and 2006 are approximately $3,450,000 and $8,858,000, respectively, of amortization, at our share, of certain assets related to the purchase of the team and our share of insurance premiums purchased on policies related to the standard indemnification required by the NBA. The remainder of the loss substantially relates to the operations of the team. The team expects to operate at a loss in 2007

comparable to prior years and required additional capital from its members to fund the loss. As a result, our percentage share of losses to be recognized over the remainder of the year is expected to be comparable to that recognized in prior years.

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Corporate Activities

Operating and Interest Expenses Operating expenses for Corporate Activities decreased by $1,264,000 for the three months ended July 31, 2007 and increased by $4,824,000 for the six months ended July 31, 2007, compared to the same periods in the prior year. The decrease of $1,264,000 for the three months ended July 31, 2007 was attributed to general corporate expenses. For the six months ended July 31, 2007, the increase was primarily related to $1,188,000 of stock-based compensation costs mostly related to awards granted to retirement-eligible grantees, $2,851,000 of payroll costs and the remaining amount related to general corporate expenses.

Interest expense for Corporate Activities consists primarily of interest expense on the senior notes and the bank revolving credit facility, excluding the portion allocated to the Land Development Group (see Financial Condition and Liquidity section). Interest expense increased by $4,351,000 and $8,020,000, respectively, for the three and six months ended July 31, 2007 compared to the same periods in the prior year and is primarily associated with the increased borrowings on the bank revolving credit facility and interest on the $287,500,000 of 3.625% puttable equity-linked senior notes that were issued in October 2006.

Other Activity

The following items are discussed on a consolidated basis.

Provision for Decline in Real Estate

We review our real estate portfolio, including land held for development or sale, to determine if our carrying costs will be recovered from future undiscounted cash flows whenever events or changes indicate that recoverability of long-lived assets may not be supported by current assumptions. In cases where we do not expect to recover our carrying costs, an impairment loss is recorded as a provision for decline in real estate pursuant to the guidance established in SFAS No. 144, Accounting for the Impairment of Long-Lived Assets (SFAS No. 144).

There was no provision for decline in real estate recorded for the three and six months ended July 31, 2007. During the three and six months ended July 31, 2006, we recorded a provision for decline in real estate of $1,923,000 related to *Saddle Rock Village*, a commercial specialty retail center and its adjacent outlots located in Aurora, Colorado. This provision represents a write down to the estimated fair value, less cost to sell, due to a change in events, such as an offer to purchase, related to the estimated future cash flows.

Depreciation and Amortization

We recorded depreciation and amortization of $55,741,000 for the three months ended July 31, 2007, which is an increase of $14,170,000 compared to the same period in the prior year. This increase is primarily the result of acquisitions and new property openings. Also included in this increase for the three months ended July 31, 2007 are $2,414,000 related to depreciation and amortization of tangible and intangible assets, resulting from the purchase price allocation for the New York portfolio transaction that closed in November 2006 and $1,552,000 of amortization expense related to capitalized software costs.

We recorded depreciation and amortization of $115,528,000 for the six months ended July 31, 2007, which is an increase of $33,669,000 for the six months ended July 31, 2007 compared to the same period in the prior year. This increase is primarily the result of management s approval to demolish two buildings adjacent to *Ten MetroTech Center*, an office building located in Brooklyn, New York, to clear the land for a residential project named *80 DeKalb Avenue*. Due to the new development plan, the estimated useful lives of the two adjacent buildings were adjusted to expire at the scheduled demolition date in April 2007 resulting in $7,837,000 of accelerated depreciation. Also included in this increase for the six months ended July 31, 2007 is $5,072,000 related to depreciation and amortization of tangible and intangible assets resulting from the purchase price allocation for the New York portfolio transaction that closed in November 2006 and $3,175,000 of amortization expense related to capitalized software costs. The remainder of the increase is primarily attributable to acquisitions and new property openings.

Amortization of Mortgage Procurement Costs

Mortgage procurement costs are amortized on a straight-line basis over the life of the related nonrecourse mortgage debt, which approximates the effective interest method. For the three and six months ended July 31, 2007, we recorded amortization of mortgage procurement costs of $2,839,000 and $5,403,000, respectively. Amortization of mortgage procurement costs increased $399,000 and $71,000 for the three and six months ended July 31, 2007, respectively, compared to the same periods in the prior year.

Loss on Early Extinguishment of Debt

For the three and six months ended July 31, 2007, we recorded $1,640,000 and $4,184,000, respectively, as loss on early extinguishment of debt, which primarily represents the impact of early extinguishment of nonrecourse mortgage debt at *Northern Boulevard* and *Columbia Park Center*, specialty retail centers located in Queens, New York and North Bergen, New Jersey, respectively, in order to secure more favorable financing terms, as well as the costs associated with the disposition of *Landings of Brentwood*, a consolidated apartment community in Nashville, Tennessee, which was sold during the three months ended July 31, 2007 (see Discontinued Operations section on page 44). For the three and six months ended July 31, 2006, we recorded $-0-

and $803,000, respectively, as loss on early extinguishment of debt, which represents the impact of early extinguishment of the construction loan at *Simi Valley Town Center*, a retail center located in Simi Valley, California, in order to obtain permanent financing.

Interest and Other Income

Interest and other income was $23,423,000 for the three months ended July 31, 2007 compared to $7,870,000 for the three months ended July 31, 2006, representing an increase of $15,553,000. This increase was primarily the result of the following:

Residential Group

- Increase of $10,090,000 related to the gain on sale of *Sterling Glen of Roslyn*, a supported-living apartment community under construction in Roslyn, New York; and
- Increase of $888,000 related to the income recognition on the sale of federal Historic Preservation Tax Credits.

Land Development Group

- Increase of $670,000 related to changes in the fair value of a derivative held by Stapleton Land, LLC on the Denver Urban Renewal Authority (DURA) bonds (see Financing Arrangements section).

These increases were partially offset by the following decreases:

Land Development Group

- Decrease of $1,864,000 related to interest income earned by Stapleton Land, LLC on an interest rate swap related to the $75,000,000 Tax Increment Financing (TIF) bonds (see Financing Arrangements section); and
- Decrease of $106,000 related to interest income earned by Stapleton Land II, LLC on the collateral and the 1% fee related to an agreement on the $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds) (see Financing Arrangements section).

Commercial Group

- Decrease of $1,341,000 related to interest income earned on cash proceeds from property dispositions placed in escrow for future acquisitions.

The balance of the remaining increase in interest and other income of approximately $7,216,000 was due to other general investing activities.

Interest and other income was $34,822,000 for the six months ended July 31, 2007 compared to $22,717,000 for the six months ended July 31, 2006, representing an increase of $12,105,000. This increase was primarily the result of the following:

Residential Group

- Increase of $10,090,000 related to the gain on sale of *Sterling Glen of Roslyn*.

Land Development Group

- Increase of $1,542,000 related to changes in the fair value of a derivative held by Stapleton Land, LLC on the DURA bonds (see Financing Arrangements section).

These increases were partially offset by the following decreases:

Residential Group

- Decrease of $7,062,000 related to the income recognition on the sale of state and federal Historic Preservation Tax Credits.

Commercial Group

- Decrease of $1,341,000 related to interest income earned on cash proceeds from property dispositions placed in escrow for future acquisitions.

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Land Development Group

Decrease of $1,787,000 related to interest income earned by Stapleton Land, LLC on an interest rate swap related to the $75,000,000 TIF bonds (see Financing Arrangements section); and

Decrease of $112,000 related to interest income earned by Stapleton Land II, LLC on the collateral and the 1% fee related to an agreement on the Senior Subordinate Bonds (see Financing Arrangements section).

The balance of the remaining increase in interest and other income of approximately $10,775,000 was due to other general investing activities.

Equity in Earnings of Unconsolidated Entities

Equity in earnings of unconsolidated entities was $7,773,000 for the three months ended July 31, 2007 compared to $6,310,000 for the three months ended July 31, 2006, representing an increase of $1,463,000. This increase was primarily the result of the following activities that occurred within our equity method investments:

Commercial Group

Increase of $663,000 related to increased occupancy at the *Westin Convention Center Hotel*, located in Pittsburgh, Pennsylvania; and

Increase of $649,000 related to our proportionate share of earnings in our equity investment in *San Francisco Centre*, located in San Francisco, California, which opened during the third quarter of 2006.

Land Development Group

Increase of $2,669,000 related to increased land sales at *Gladden Farms II*, located in Marana, Arizona.

The Nets

Increase of $1,815,000 due to a reduction in our proportionate share of the loss related to our equity investment in the Nets.

Residential Group

Increase of $1,698,000 due to the sale of condominium units at *1100 Wilshire* and *Mercury*, both located in Los Angeles, California.

These increases were partially offset by the following decreases:

Commercial Group

Decrease of $7,662,000 related to the 2006 gain on disposition of *Midtown Plaza*, a specialty retail center located in Parma, Ohio; and

Decrease of $875,000 due to the consolidation of *Galleria at Sunset*, a regional mall in Henderson, Nevada, in the third quarter of 2006 due to buy-out of our partner.

Land Development Group

Decrease of $2,920,000 primarily related to decreased land sales at *Gladden Forest*, located in Marana, Arizona and *Chestnut Commons*, located in Elyria, Ohio; and

Decrease of $885,000 primarily related to decreased land sales at *Suncoast Lakes*, located in Pasco County, Florida and *Canterbury Crossing*, located in Parker, Colorado.

Residential Group

Decrease of $829,000 due to the consolidation of *Village Green*, an apartment community located in Beachwood, Ohio, in the fourth quarter of 2006 due to buy-out of our partner.

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Equity in earnings of unconsolidated entities was $9,134,000 for the six months ended July 31, 2007 compared to $6,689,000 for the six months ended July 31, 2006, representing an increase of $2,445,000. This increase was primarily the result of the following activities that occurred within our equity method investments:

Commercial Group

- Increase of $1,289,000 related to increased occupancy at the *Westin Convention Center Hotel*; and
- Increase of $1,221,000 related to our proportionate share of earnings in our equity investment in *San Francisco Centre*, which opened during the third quarter of 2006.

Land Development Group

- Increase of $2,647,000 related to increased land sales at *Gladden Farms II*.

The Nets

- Increase of $7,265,000 due to a reduction in our proportionate share of the loss related to our equity investment in the Nets.

Residential Group

- Increase of $2,106,000 related to the 2007 gain on disposition of *White Acres*, an apartment community located in Richmond Heights, Ohio; and
- Increase of $2,039,000 related to the sale of condominium units at *1100 Wilshire* and *Mercury*.

These increases were partially offset by the following decreases:

Commercial Group

- Decrease of $7,662,000 related to the 2006 gain on disposition of *Midtown Plaza*; and
- Decrease of $1,874,000 due to the consolidation of *Galleria at Sunset*, in the third quarter of 2006 due to buy-out of our partner.

Land Development Group

- Decrease of $4,243,000 primarily related to decreased land sales in Mayfield Village, Ohio;
- Decrease of $3,215,000 primarily related to decreased land sales at *Suncoast Lakes* and *Canterbury Crossing*; and
- Decrease of $3,054,000 related to decreased land sales at *Gladden Forest* and *Chestnut Commons*.

Residential Group

- Decrease of $790,000 due to the consolidation of *Village Green* in the fourth quarter of 2006 due to buy-out of our partner.

Income Taxes

Income tax benefit for the three months ended July 31, 2007 and 2006 was $609,000 and $3,679,000, respectively, and $14,649,000 for the six months ended July 31, 2007. Income tax expense for the six months ended July 31, 2006 was $3,468,000. The difference in the income tax benefit or expense reflected in the Consolidated Statements of Earnings versus the income tax benefit or expense computed at the statutory federal income tax rate is primarily attributable to state income taxes, additional general business credits, changes to our charitable contribution and state NOL valuation allowances based upon management s assessment of our ability to utilize such deferred tax assets, and various permanent differences between pre-tax GAAP income and taxable income. At January 31, 2007, we had a net operating loss carryforward for tax purposes of $90,825,000 (generated primarily from the impact on our net earnings of tax depreciation expense from real estate properties) that will expire in the years ending January 31, 2022 through January 31, 2027, a charitable contribution deduction carryforward of $37,942,000 that will expire in the years ending

January 31, 2008 (approximately $38,000) through January 31, 2012, general business credit carryovers of $12,865,000 that will expire in the years ending January 31, 2008 through 2027 and an alternative minimum tax (AMT) credit carryforward of $27,067,000 that is available to be used to reduce Federal tax to the AMT amount. We have a full valuation allowance against the deferred tax asset associated with our charitable contributions because management believes at this time that it is more likely than not that we will not realize these benefits. Our policy is to consider a variety of tax-deferral strategies, including tax deferred exchanges, when evaluating our future tax position. We apply the with-and-without methodology for recognizing excess tax benefits from the deduction of stock-based compensation. The carryforwards reported in the preceding paragraph reflect the amounts that will be presented on the January 31, 2007 tax return and include a stock-based compensation deduction of $26,129,000. Under the with-and-without approach, no excess tax benefit from stock-based compensation is recorded until we have utilized our existing net operating losses. Accordingly, we have not recorded a net deferred tax asset of approximately $7,797,000 from excess stock-based compensation deductions.

FIN No. 48

On July 13, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN No. 48) prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under FIN No. 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without considering time values.

We adopted the provisions of FIN No. 48 effective February 1, 2007. Unrecognized tax benefits represent those tax benefits related to tax positions that have been taken or are expected to be taken in tax returns that are not recognized in the financial statements because management has either concluded that it is not more likely than not that the tax position will be sustained if audited by the appropriate taxing authority or the amount of the benefit will be less than the amount taken or expected to be taken in our income tax returns. The effect of this adoption on February 1, 2007 resulted in a cumulative effect adjustment of $245,000 as an increase to beginning retained earnings.

We recognize estimated interest payable on underpayments of income taxes and estimated penalties that may result from the settlement of some uncertain tax positions as components of income tax expense. We file a consolidated United States federal income tax return. Where applicable, we file combined income tax returns in various states and we file individual separate income tax returns in other states. Our federal consolidated income tax returns for the year ended January 31, 2003 and subsequent years are subject to examination by the Internal Revenue Service. Certain of our state returns for the year ended January 31, 2003 and all subsequent year state returns are subject to examination by various taxing authorities.

During the three months ended July 31, 2007, we settled examinations on two of our partnerships. A summary of our FIN No. 48 position at the date of adoption, February 1, 2007, and as of July 31, 2007 is depicted in the following table:

	July 31, 2007	February 1, 2007
Unrecognized tax benefits	**$ 4,523,000**	$ 4,892,000
Portion that, if recognized, would impact the effective rate	**$ 886,000**	$ 844,000
Accrued interest and penalties on unrecognized tax benefits	**$ 1,000,000**	$ 1,013,000
Range of possible decrease in unrecognized tax benefits in next twelve months	**$ 0 to $3,500,000**	$ 0 to $3,900,000

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Discontinued Operations

Pursuant to the definition of a component of an entity in SFAS No. 144, all earnings of discontinued operations sold or held for sale, assuming no significant continuing involvement, have been reclassified in the Consolidated Statements of Earnings for the three and six months ended July 31, 2007 and 2006. We consider assets held for sale when the transaction has been approved and there are no significant contingencies related to the sale that may prevent the transaction from closing.

Sterling Glen of Lynbrook, a supported-living apartment community in Lynbrook, New York, was held for sale at July 31, 2007. Sterling Glen of Lynbrook s assets and liabilities as of July 31, 2007 are presented in the table below.

	July 31, 2007 (in thousands)
Assets	
Real estate	$ **29,858**
Cash and equivalents	**615**
Restricted cash	**831**
Notes and accounts receivable, net	**9**
Other assets	**1,639**
Total Assets	$ **32,952**
Liabilities	
Mortgage debt, nonrecourse	$ **27,696**
Accounts payable and accrued expenses	**280**
Total Liabilities	$ **27,976**

The following table lists the consolidated rental properties included in discontinued operations:

Property	**Location**	**Square Feet/ Number of Units**	**Quarter/ Year Disposed**	**Three Months Ended 7/31/2007**	**Six Months Ended 7/31/2007**	**Three Months Ended 7/31/2006**	**Six Months Ended 7/31/2006**
Commercial Group:							
Battery Park City Retail	Manhattan, New York	166,000 square feet	Q3-2006			Yes	Yes
Embassy Suites Hotel	Manhattan, New York	463 rooms	Q3-2006			Yes	Yes
Hilton Times Square	Manhattan, New York	444 rooms	Q1-2006				Yes
G Street Retail	Philadelphia, Pennsylvania	13,000 square feet	Q1-2006				Yes
Residential Group:							
		130 units	Est. Q1-2008	Yes	Yes	Yes	Yes

Sterling Glen of Lynbrook	Lynbrook, New York						
Sterling Glen of Bayshore	Bayshore, New York	85 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Center City	Philadelphia, Pennsylvania	135 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Darien	Darien, Connecticut	80 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Forest Hills	Forest Hills, New York	83 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Plainview	Plainview, New York	79 units	Q2-2007	Yes	Yes	Yes	Yes
Sterling Glen of Stamford	Stamford, Connecticut	166 units	Q2-2007	Yes	Yes	Yes	Yes
Landings of Brentwood	Nashville, Tennessee	724 units	Q2-2007	Yes	Yes		
Mount Vernon Square	Alexandria, Virginia	1,387 units	Q4-2006			Yes	Yes
Providence at Palm Harbor	Tampa, Florida	236 units	Q2-2006			Yes	Yes

During the three months ended July 31, 2007, we consummated an agreement with a third party to dispose of eight and lease four supported-living apartment properties. Eleven of the properties are open and operating and one is under construction. The property under construction and seven operating properties will be sold, and four will be operated by the purchaser under long-term operating leases. The operating leases will have a stated term of five years with various put and call provisions at a pre-determined purchase price that can be exercised generally after two years from the signing date of each lease at an amount that is in excess of the current carrying amount of the properties. We are generally entitled to a fixed lease payment from the lessee over the term of the lease in exchange for the operations of the properties, which will be retained by the lessee. During June 2007, prior to the agreements to dispose and lease its supported-living properties, we acquired our partner s interests in each of these properties for net cash consideration of approximately $20.5 million. The acquisition of our partner s interest (a related party who is an employee of ours) was accounted for as an acquisition of minority interest in accordance with SFAS No. 141 and has been recorded as an adjustment of the basis of the supported-living properties.

During the three months ended July 31, 2007, the property under construction, *Sterling Glen of Roslyn*, located in Roslyn, New York, was sold at a pre-tax gain of $10,090,000 ($6,191,000 net of tax) that is included in other income in the Consolidated Statements of Earnings for the three and six months ended July 31, 2007. In addition, during July 2007 six operating properties, listed in the table above, were sold generating a gain on disposition of rental properties of $81,239,000 ($49,848,000 net of tax and minority interest), which has been classified as discontinued operations along with the operating results of the six properties through the date of sale.

The seventh operating property, *Sterling Glen of Lynbrook*, is expected to be sold in 2008 and is being operated by the purchaser under a short-term lease. This property is presented as discontinued operations as of July 31, 2007 as the terms of its lease meet the qualifications of assets held for sale under SFAS No. 144.

Three of the remaining properties entered into long-term operating leases with the purchaser (one of which closed on August 1, 2007). We have continued to consolidate the leased properties in our Consolidated Balance Sheets at July 31, 2007 as the criteria for sales accounting pursuant to the provisions of SFAS No. 66, Accounting for Sales of Real Estate (SFAS No. 66) have not been achieved. Further, we have concluded that the leased properties have met the criteria as a VIE pursuant to FASB interpretation No. 46 (Revised December 2003) Consolidation of Variable interest Entities (FIN No. 46(R)), and due to our obligation to absorb a majority of expected losses, the leased properties are consolidated by us at July 31, 2007 and are expected to remain consolidated until sold. The provisions of these three leases do not meet the qualifications of assets held for sale under SFAS No. 144 as of July 31, 2007; therefore, these properties have not been included in discontinued operations. It is expected that one additional operating property will enter into a long-term lease with the purchaser later in 2007.

During the three months ended July 31, 2007, we also disposed of *Landings of Brentwood*, a 724-unit apartment community, for a gain on disposition of rental properties of $25,079,000 ($15,388,000 net of tax and minority interest).

The operating results related to discontinued operations were as follows:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2007	2006	**2007**	2006
	(in thousands)		*(in thousands)*	
Revenues	**$ 12,397**	$33,166	**$ 24,599**	$ 66,445
Expenses				
Operating expenses	**11,883**	20,472	**20,730**	47,005
Depreciation and amortization	**921**	3,470	**1,934**	6,914
	12,804	23,942	**22,664**	53,919
Interest expense	**(2,000)**	(4,832)	**(3,608)**	(10,210)
Amortization of mortgage procurement costs	**(34)**	(151)	**(69)**	(318)
Loss on early extinguishment of debt	**(363)**		**(363)**	
Interest income	**112**	281	**209**	1,004
Gain on disposition of rental properties	**106,318**	7,342	**106,318**	143,726
Earnings before income taxes	**103,626**	11,864	**104,422**	146,728
Income tax expense				
Current	**5,682**	1,405	**5,740**	703
Deferred	**34,358**	3,993	**34,608**	33,252
	40,040	5,398	**40,348**	33,955

Earnings before minority interest	**63,586**	6,466	**64,074**	112,773
Minority interest, net of tax				
Gain (loss) on disposition of rental properties		(2,693)		58,393
Operating earnings from rental properties		586		457
		(2,107)		58,850
Net earnings from discontinued operations	**$ 63,586**	$ 8,573	**$ 64,074**	$ 53,923

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Gain on Disposition of Rental Properties

The following table summarizes the gain on disposition of rental properties, before tax and minority interest, for the three and six months ended July 31, 2007 and 2006:

	Three Months Ended July 31,		**Six Months Ended July 31,**	
	2007	2006	**2007**	2006
	(in thousands)		*(in thousands)*	
Discontinued Operations:				
Six Sterling Glen properties (Supported-Living Apartments) [1]	**$ 81,239**	$	**$ 81,239**	$
Landings of Brentwood (Apartments) [2]	**25,079**		**25,079**	
Hilton Times Square Hotel [2]				135,945
G Street Retail (Specialty Retail Center)				439
Providence at Palm Harbor (Apartments) [2]		7,342		7,342
Total	**$106,318**	$7,342	**$106,318**	$143,726

(1) The six properties included in the gain on disposition are *Sterling Glen of Bayshore, Sterling Glen of Center City, Sterling Glen of Darien, Sterling Glen of Forest Hills, Sterling Glen of Plainview* and *Sterling Glen of Stamford*. We elected to deposit the sales proceeds with a qualified intermediary for the purposes of identifying replacement assets under Section 1031 of the Internal Revenue Code for the

properties except *Sterling Glen of Forest Hills*.

(2) We elected to deposit the sales proceeds with a qualified intermediary for purposes of acquiring replacement assets under Section 1031 of the Internal Revenue Code.

Investments accounted for on the equity method are not subject to the provisions of SFAS No. 144; therefore, the gains or losses on the sales of equity method properties are reported in continuing operations when sold. The following table summarizes our proportionate share of the gains on disposition of equity method investments during the three and six months ended July 31, 2007 and 2006, which are included in equity in earnings of unconsolidated entities in the Consolidated Statements of Earnings:

		Three Months Ended July 31,		**Six Months Ended July 31,**	
		2007	2006	**2007**	2006
		(in thousands)		*(in thousands)*	
White Acres (Apartments) [1]	Richmond Heights, Ohio	**$**	$	**$ 2,106**	$
Midtown Plaza (Specialty Retail Center)	Parma, Ohio		7,662		7,662
		$	$ 7,662	**$ 2,106**	$ 7,662

(1) We disposed of our interest in *White Acres* in a non-monetary exchange for the remaining outside interest in *Midtown Towers*, an apartment community located in Parma, Ohio, which was also an equity method

investment. We have accounted for the non-monetary transaction based upon the fair value of the equity method investments exchanged, which resulted in the above gain on disposition of $2,106,000 for the six months ended July 31, 2007.

FINANCIAL CONDITION AND LIQUIDITY

We believe that our sources of liquidity and capital are adequate to meet our funding obligations. Recent difficulties in the sub-prime mortgage markets have negatively impacted the lending and capital markets, particularly for real estate. The risk premium demanded by capital suppliers has increased significantly since the end of the second quarter. Lending spreads have widened from recent levels and originations of new loans for the Commercial Mortgage Backed Securities (CMBS) market have decreased significantly. Underwriting standards are being tightened and spreads have risen. While the long-term impact cannot be known, borrowing costs for us may rise and financing levels may be modestly lower. To date, we have not experienced any significant negative impact to our access to capital from the recent changes in the debt marketplace.

Our principal sources of funds are cash provided by operations, the bank revolving credit facility, refinancings of nonrecourse mortgage debt, dispositions of mature properties and proceeds from the issuance of senior notes. Our principal use of funds are the financing of development and acquisitions of real estate projects, capital expenditures for our existing portfolio, payments on nonrecourse mortgage debt, payments on our bank revolving credit facility and retirement of senior notes previously issued. The discussion below under Bank Revolving Credit Facility and Senior and Subordinated Debt outline events that have enhanced our liquidity and financial flexibility which will be important in our efforts to continue to develop and acquire quality real estate assets.

Effective December 1, 2005, the Securities and Exchange Commission (SEC) adopted new rules which substantially modify the registration, communications and offering procedures under the Securities Act of 1933. These new rules streamline the shelf registration process for well-known seasoned issuers (WKSI) by allowing them to file shelf registration statements that automatically become effective. Based upon the criteria set forth in the new rules, we have determined that we are a WKSI as of July 31, 2007. In the meantime, we may still issue securities under our existing shelf registration statement described on page 48.

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Bank Revolving Credit Facility

On June 6, 2007, our 13-member bank group approved an amended and restated bank revolving credit facility. The amendment extended the maturity date one year until March 2010 and reduced the spread on the London Interbank Offered Rate (LIBOR) rate option by 30 basis points to 1.45%. Among other transactional provisions, the amended facility contains an accordion provision that allows us, subject to bank approval, to increase our maximum borrowings by $150,000,000 to $750,000,000 at any time prior to maturity. Our financial covenants, as defined in the credit facility, have remained unchanged.

The maximum borrowings, outstanding balances and related terms of the bank revolving credit facility at July 31, 2007 and January 31, 2007 were as follows (in thousands, except percentage amounts):

	July 31, 2007		January 31, 2007	
Maximum borrowings [1]	$	600,000	$	600,000
Accordion option	$	150,000	$	
Outstanding:				
Borrowings	$	235,000	$	
Letters of credit	$	83,338	$	72,324
Surety bonds	$		$	
Related Terms:				
LIBOR rate option [2]		1.45% + LIBOR		1.75% + LIBOR
Prime rate option		1/2% + prime rate		1/2% + prime rate
Dividend/stock repurchase limitation	$	40,000	$	40,000

(1) $100,000,000 of the available borrowings may be used for letters of credit or surety bonds.

(2) We generally elect the LIBOR rate option over the prime rate option.

Senior and Subordinated Debt

Our Senior and Subordinated Debt is comprised of the following at both July 31, 2007 and January 31, 2007 (in thousands):

Senior Notes:	
3.625% Puttable Equity-Linked Senior Notes due 2011	$ 287,500
Other Senior Notes:	
7.625% Senior Notes due 2015	300,000
6.500% Senior Notes due 2017	150,000
7.375% Senior Notes due 2034	100,000
Total Senior Notes	837,500

Subordinated Debt:	
Redevelopment Bonds due 2010	**20,400**
Subordinate Tax Revenue Bonds due 2013	**29,000**
Total Subordinated Debt	**49,400**
Total Senior and Subordinated Debt	**$ 886,900**

Puttable Equity-Linked Senior Notes

On October 10, 2006, we issued $287,500,000 of 3.625% puttable equity-linked senior notes due October 15, 2011 in a private placement. The proceeds from this offering (net of $25,000,000 of offering costs, underwriting fees and the cost of the puttable note hedge and warrant transactions described below) were used to repurchase $24,962,000 of our Class A common stock, to repay the outstanding balance of $190,000,000 under our bank revolving credit facility (see above) and for general working capital purposes. The notes were issued at par and accrued interest is payable semi-annually in arrears on April 15 and October 15 of each year, beginning on April 15, 2007. We may not redeem these notes prior to maturity. The notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness.

Holders may put their notes to us at their option on any day prior to the close of business on the scheduled trading day immediately preceding July 15, 2011 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the trading price per note for each day of that measurement period was less than 98% of the product of the last reported sale price of our Class A common stock and the put value rate (as defined) on each such day; (2) during any fiscal quarter after the fiscal quarter ending January 31, 2007, if the last reported sale price of our Class A common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately

preceding fiscal quarter exceeds 130% of the applicable put value price in effect on the last trading day of the immediately preceding fiscal quarter; or (3) upon the occurrence of specified corporate events as set forth in the applicable indenture. On and after July 15, 2011 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may put their notes to us at any time, regardless of the foregoing circumstances. In addition, upon a designated event, as defined, the holders may require us to purchase for cash all or a portion of their notes for 100% of the principal amount of the notes plus accrued and unpaid interest, if any, as set forth in the applicable indenture.

If a note is put to us, a holder would receive (i) cash equal to the lesser of the principal amount of the note or the put value and (ii) to the extent the put value exceeds the principal amount of the note, shares of our Class A common stock, cash, or a combination of Class A common stock and cash, at our option. The initial put value rate was 15.0631 shares of Class A common stock per $1,000 principal amount of notes (equivalent to a put value price of $66.39 per share of Class A common stock). The put value rate will be subject to adjustment in some events but will not be adjusted for accrued interest. In addition, if a fundamental change, as defined, occurs prior to the maturity date, we will in some cases increase the put value rate for a holder that elects to put its notes to us.

We entered into a registration rights agreement that required a shelf registration statement to be filed within 90 days and declared effective under the United States Securities Act of 1933 (Securities Act) within 180 days after October 10, 2006. We filed a shelf registration statement under the Securities Act for the resale of the notes and the Class A common stock issuable upon our exercise of the net share settlement option on January 4, 2007 and it was immediately effective due to our status as a WKSI. We will use our best efforts to keep the shelf registration statement effective until the earliest of: (1) the date all of the registrable securities have been sold pursuant to the shelf registration statement; (2) the expiration of the holding period under Rule 144(k) under the Securities Act, or any successor provision; or (3) two years from the date the shelf registration statement is declared effective. We refer to each of the following as an effective failure: (1) the shelf registration statement ceases to be effective, or (2) we suspend the use of the prospectus or the holders are otherwise prevented or restricted by us from effecting sales pursuant to the shelf registration statement, and either continues for more than 30 days, whether or not consecutive, in any 90-day period, or for more than 90 days, whether or not consecutive, during any 12-month period.

Upon the occurrence of an effective failure, we will be required to pay additional amounts, in cash, to holders of the notes. Such additional amounts will accrue on the notes that are registrable securities, from and including the day following the effective failure to but excluding, the earlier of the time such holders are again able to make resales under the shelf registration statement and the date the shelf registration statement is no longer required to be kept effective. Additional amounts will be paid semiannually in arrears on each April 15 and October 15 and will accrue at a rate per annum equal to 0.25% for the first 90 days after the occurrence of the event and 0.50% after the first 90 days. In no event will additional amounts exceed 0.50% per annum. At July 31, 2007, the maximum potential additional amounts that could be required to be paid by us is approximately $2,174,000 for the two year period in which the shelf registration is required to be effective. At July 31, 2007, we, in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, Accounting for Contingencies , have concluded that it is not probable we will be required to pay additional amounts as a result of an effective failure.

Concurrent with the issuance of the notes, we purchased a call option on our Class A common stock in a private transaction. The purchased call option allows us to receive shares of our Class A common stock and/or cash from counterparties equal to the amounts of Class A common stock and/or cash related to the excess put value that we would pay to the holders of the notes if put to us. These purchased call options will terminate upon the earlier of the maturity dates of the notes or the first day all of the notes are no longer outstanding due to a put or otherwise. The purchased call options, which cost an aggregate $45,885,000 ($28,155,000 net of the related tax benefit), were recorded net of tax as a reduction of shareholders equity through additional paid-in capital during the year ended January 31, 2007. In a separate transaction, we sold warrants to issue shares of our Class A common stock at an exercise price of $74.35 per share in a private transaction. If the average price of our Class A common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of our Class A common stock. Proceeds received from the issuance of the warrants totaled approximately $28,923,000 and were recorded as an addition to shareholders equity through additional paid-in

capital during the year ended January 31, 2007.

Other Senior Notes

Along with our wholly-owned subsidiaries, Forest City Enterprises Capital Trust I (Trust I) and Forest City Enterprises Capital Trust II (Trust II), we filed an amended shelf registration statement with the SEC on May 24, 2002. This shelf registration statement amended the registration statement previously filed with the SEC in December 1997. This registration statement is intended to provide us flexibility to raise funds from the offering of Class A common stock, preferred stock, depositary shares and a variety of debt securities, warrants and other securities. Trust I and Trust II have not issued securities to date and, if issued, would represent the sole net assets of the trusts. We have $292,180,000 available under our shelf registration at July 31, 2007.

On May 19, 2003, we issued $300,000,000 of 7.625% senior notes due June 1, 2015 in a public offering under our shelf registration statement. Accrued interest is payable semi-annually on December 1 and June 1. These senior notes may be redeemed by us, at any time on or after June 1, 2008 at a redemption price of 103.813% beginning June 1, 2008 and systematically reduced to 100% in years thereafter.

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On January 25, 2005, we issued $150,000,000 of 6.500% senior notes due February 1, 2017 in a public offering under our shelf registration statement. Accrued interest is payable semi-annually on February 1 and August 1. These senior notes may be redeemed by us, at any time on or after February 1, 2010 at a redemption price of 103.250% beginning February 1, 2010 and systematically reduced to 100% in the years thereafter. However, if we complete one or more public equity offerings prior to February 1, 2008, up to 35% of the original principal amount of the notes may be redeemed using all or a portion of the net proceeds within 75 days of the completion of the public equity offering at 106.50% of the principal amount of the notes.
On February 10, 2004, we issued $100,000,000 of 7.375% senior notes due February 1, 2034 in a public offering under our shelf registration statement. Accrued interest is payable quarterly on February 1, May 1, August 1, and November 1. These senior notes may be redeemed by us, in whole or in part, at any time on or after February 10, 2009 at a redemption price equal to 100% of their principal amount plus accrued interest.
Our senior notes are unsecured senior obligations and rank equally with all existing and future unsecured indebtedness; however, they are effectively subordinated to all existing and future secured indebtedness and other liabilities of our subsidiaries to the extent of the value of the collateral securing such other debt, including our bank revolving credit facility. The indentures governing our senior notes contain covenants providing, among other things, limitations on incurring additional debt and payment of dividends.

Subordinated Debt

In November 2000, we issued $20,400,000 of redevelopment bonds in a private placement. The bonds bear a fixed interest rate of 8.25% and are due September 15, 2010. We have entered into a TRS for the benefit of these bonds that expires on September 15, 2008. Under this TRS, we receive a rate of 8.25% and pay the Security Industry and Financial Markets Association (SIFMA), formerly known as Bond Market Association (BMA) rate plus a spread (1.15% through September 2006 and 0.90% thereafter). Interest is payable semi-annually on March 15 and September 15. This debt is unsecured and subordinated to the senior notes and the bank revolving credit facility.
In May 2003, we purchased $29,000,000 of subordinate tax revenue bonds that were contemporaneously transferred to a custodian, which in turn issued custodial receipts that represent ownership in the bonds to unrelated third parties. We evaluated the transfer pursuant to the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities (SFAS No. 140), and have determined that the transfer does not qualify for sale accounting treatment principally because we have guaranteed the payment of principal and interest in the unlikely event that there is insufficient tax revenue to support the bonds when the custodial receipts are subject to mandatory tender on December 1, 2013. As such, we are the primary beneficiary of this VIE (see the Variable Interest Entities section of the MD&A) and the book value (which approximates amortized costs) of the bonds was recorded as a collateralized borrowing reported as senior and subordinated debt and as held-to-maturity securities reported as other assets in the Consolidated Balance Sheets.

Financing Arrangements

Collateralized Borrowings

On July 13, 2005, the Park Creek Metropolitan District (the District) issued $65,000,000 Senior Subordinate Limited Property Tax Supported Revenue Refunding and Improvement Bonds (Senior Subordinate Bonds), Series 2005. The District used a portion of the proceeds to repay developer advances and accrued interest of $30,271,000 to Stapleton Land, LLC, our consolidated subsidiary.
On July 13, 2005, Stapleton Land II, LLC, our consolidated subsidiary, entered into an agreement whereby it will receive a 1% fee on the $65,000,000 Senior Subordinate Bonds described above in exchange for providing certain credit enhancement. In connection with this transaction, Stapleton Land II, LLC provided a combination of cash and notes receivable aggregating approximately, $10,000,000 as collateral, which was recorded in the Consolidated Balance Sheets as of January 31, 2007. During the six-month period ended July 31, 2007, the cash component was replaced as collateral by certain notes receivable owned by us. For the three and six months ended July 31, 2007, we recorded approximately $163,000 and $394,000, respectively, of interest income related to this arrangement in the Consolidated Statements of Earnings. Of the interest income amount, $163,000 and $321,000, respectively, is fee interest income and $-0- and $73,000, respectively, is interest income on the collateral. For the three and six months ended July 31, 2006, we recorded $269,000 and $506,000, respectively, of interest income related to this arrangement

in the Consolidated Statements of Earnings. Of the interest income amount, $164,000 and $322,000, respectively, is fee interest income and $105,000 and $184,000, respectively, is interest income on the collateral. The counterparty to the credit enhancement arrangement also owns the underlying Senior Subordinate Bonds and can exercise its rights requiring payment from Stapleton Land II, LLC upon an event of default of the Senior Subordinate Bonds, a refunding of the Senior Subordinate Bonds, or failure of Stapleton Land II, LLC to post required collateral. The agreement is scheduled to expire on July 1, 2009. The maximum potential amount of payments Stapleton Land II, LLC could be required to make under the agreement is the par value of the Senior Subordinate Bonds. We do not have any rights or obligations to acquire the $65,000,000 Senior Subordinate Bonds under this agreement. At July 31, 2007, the fair value of this agreement, which is deemed to be a derivative financial instrument, was immaterial. Subsequent changes in fair value, if any, will be marked to market through earnings.

On August 16, 2005, the District issued $58,000,000 Junior Subordinated Limited Property Tax Supported Revenue Bonds, Series 2005 (the Junior Subordinated Bonds). The Junior Subordinated Bonds initially pay a variable rate of interest. Upon issuance, the Junior Subordinated Bonds were purchased by a third party and the sales proceeds were deposited with a trustee pursuant to the terms of the Series 2005 Investment Agreement. Under the terms of the Series 2005 Investment Agreement, after March 1, 2006, the District may elect to withdraw funds from the trustee for reimbursement for certain qualified infrastructure and interest expenditures (Qualifying Expenditures). In the event that funds from the trustee are used for Qualifying Expenditures, a corresponding amount of the Junior Subordinated Bonds converts to an 8.5% fixed rate and matures in December 2037 (Converted Bonds). On August 16, 2005, Stapleton Land, LLC entered into a Forward Delivery Placement Agreement (FDA) whereby Stapleton Land, LLC is entitled to and obligated to purchase the converted fixed rate Junior Subordinated Bonds through June 2, 2008. Prior to the incurrence of Qualifying Expenditures and the resulting Converted Bonds, Stapleton Land, LLC has no rights or obligations relating to the Junior Subordinated Bonds. In the event the District does not incur Qualifying Expenditures, the Junior Subordinated Bonds will mature on June 2, 2008. During 2006, the District withdrew $20,000,000 of funds from the trustee for reimbursement of certain Qualifying Expenditures. On May 1, 2007, the District withdrew an additional $14,000,000 of funds from the trustee for reimbursement of certain Qualifying Expenditures. Therefore, a corresponding amount of the Junior Subordinated Bonds became Converted Bonds and were acquired by Stapleton Land, LLC under the terms of the FDA. Stapleton Land, LLC immediately transferred the Converted Bonds to investment banks and we simultaneously entered into TRS with a notional amount of $34,000,000. We receive a fixed rate of 8.5% and pay SIFMA plus a spread on the TRS related to the Converted Bonds. We determined the sale of the Converted Bonds to the investment banks and simultaneous execution of the TRS did not surrender control; therefore, the Converted Bonds have been recorded as a secured borrowing in the Consolidated Balance Sheets. We have classified the Converted Bonds as available for sale, with unrealized holding gains and losses recorded in accumulated other comprehensive income. The fair value of the Converted Bonds was approximately $34,000,000 and $20,000,000, respectively, at July 31, 2007 and January 31, 2007. For the three and six months ended July 31, 2007, we recorded $346,000 and $560,000, respectively, as a reduction of interest expense related to the $34,000,000 TRS in the Consolidated Statement of Earnings. As of July 31, 2007 no further draws have been made by the District.

Other Financing Arrangements

In May 2004, a third party purchased $200,000,000 in tax increment revenue bonds issued by DURA, with a fixed-rate coupon of 8.0% and maturity date of October 1, 2024, which were used to fund the infrastructure costs associated with phase II of the Stapleton development project. The DURA bonds were transferred to a trust that issued floating rate trust certificates. Stapleton Land, LLC entered into an agreement with the third party to purchase the DURA bonds from the trust if they are not repurchased or remarketed between June 1, 2007 and June 1, 2009. Stapleton Land, LLC will receive a fee upon removal of the DURA bonds from the trust equal to the 8.0% coupon rate, less the SIFMA index (fixed at 2.85% through June 1, 2007), plus 40 basis points, less all fees and expenses due to the third party (collectively, the Fee).

We have concluded that the trust described above is considered a qualified special purpose entity pursuant to the provisions of SFAS No. 140 and thus is excluded from the scope of FIN No. 46(R). As a result, the DURA bonds and the activity of the trust have not been recorded in the consolidated financial statements. The purchase obligation and the Fee have been accounted for as a derivative with changes in fair value recorded through earnings.

The fair market value of the purchase obligation and the Fee is determined based on the present value of the estimated amount of future cash flows considering possible variations in the amount and/or timing. The fair value of $19,349,000 at July 31, 2007 and $15,090,000 at January 31, 2007 is recorded in other assets in the Consolidated Balance Sheets. For the three and six months ended July 31, 2007, we reported interest income of approximately $2,253,000 and $4,259,000, respectively, related to the Fee in the Consolidated Statements of Earnings. For the three and six months ended July 31, 2006, we reported interest income of approximately $1,583,000 and $2,717,000, respectively, related to the Fee in the Consolidated Statements of Earnings.

Also in May 2004, Stapleton Land, LLC entered into a TRS and an interest rate swap both with notional amounts of $75,000,000. Stapleton Land, LLC receives a rate of 6.3% and pays SIFMA plus 60 basis points on the TRS

(Stapleton Land, LLC paid SIFMA plus 160 basis points for the initial first 6 months under this agreement). On the interest rate swap, Stapleton Land, LLC pays a rate of 2.85% and receives SIFMA. Stapleton Land, LLC does not hold the underlying borrowings on the TRS. The change in the fair value of the TRS is marked to market through earnings. The TRS matured during the six months ended July 31, 2007. The fair value of the TRS at January 31, 2007 was approximately $255,000.
Stapleton Land, LLC has committed to fund $24,500,000 to the Park Creek Metropolitan District to be used for certain infrastructure projects. Stapleton Land, LLC has funded $4,692,000 of this commitment as of July 31, 2007.

Mortgage Financings

Our primary capital strategy seeks to isolate the financial risk at the property level to maximize returns and reduce risk on and of our equity capital. Our mortgage debt is nonrecourse, including our construction loans, with each property separately financed. We do not cross-collateralize our mortgage debt. We operate as a C-corporation and retain substantially all of our internally generated cash flows. We recycle this cash flow, together with refinancing and property sale proceeds to fund new development and acquisitions that we believe will drive favorable returns for our shareholders. This strategy has historically provided us with the necessary liquidity to take advantage of investment opportunities, and we believe will continue to do so in the future.

We use taxable and tax-exempt nonrecourse debt for our real estate projects. For those operating projects financed with taxable debt, we generally seek long-term, fixed-rate financing for those real estate project loans which mature within the next 12 months, as well as those real estate projects which are projected to open and achieve stabilized operations during that same time frame. For real estate projects financed with tax-exempt debt, we generally utilize variable-rate debt. For construction loans, we generally pursue variable-rate financings with maturities ranging from two to five years.

We are actively working to extend the maturities and/or refinance the nonrecourse debt that is coming due in 2007 and 2008. During the six months ended July 31, 2007, we completed the following financings:

Purpose of Financing	**Amount**
	(in thousands)
Loan extensions/additional fundings	$ 486,730
Development projects and acquisitions [(1)]	223,092
Refinancings	210,703
	$ 920,525

(1) $157,575 of the $223,092 relates to development projects and represents the full amount available to be drawn on the loan.

Interest Rate Exposure

At July 31, 2007, the composition of nonrecourse mortgage debt was as follows:

	Operating Properties	**Development and Land Projects**	**Total**	**Total Weighted Average Rate**
		(dollars in thousands)		
Fixed [(1)]	$3,852,844	$ 5,239	$3,858,083	6.08%
Variable [(2)]				
Taxable	784,057	247,400	1,031,457	6.90%
Tax-Exempt	619,592	43,232	662,824	4.49%
	$5,256,493	$ 295,871	$5,552,364	6.04%
Commitment from lenders		$ 663,288		

(1) Fixed rate debt of $3,858,083 as of July 31, 2007

includes $94,688 of Urban Development Action Grants (UDAGs) at 2.06%.

(2) Taxable variable-rate debt of $1,031,457 and tax-exempt variable-rate debt of $662,824 as of July 31, 2007 is protected with swaps and caps described below.

To mitigate short-term variable-interest rate risk, we have purchased interest rate hedges for our mortgage debt portfolio as follows:

Taxable (Priced off of London Interbank Offered Rate (LIBOR) Index)

	Caps		Swaps[1]	
Period Covered	**Notional Amount**	**Average Base Rate**	**Notional Amount**	**Average Base Rate**
		(dollars in thousands)		
08/01/07-02/01/08 [2]	$1,037,362	6.51%	$350,289	4.72%
02/01/08-02/01/09	1,056,089	7.19	689,690	5.43
02/01/09-02/01/10	391,413	5.43	688,432	5.43
02/01/10-02/01/11	73,500	5.00	687,081	5.44

(1) Excludes the 10-year forward swaps discussed below.

(2) These LIBOR-based hedges as of August 1, 2007 protect the debt currently outstanding as well as the anticipated increase in debt outstanding for

projects under development or anticipated to be under development during the year ending January 31, 2008.

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Tax Exempt (Priced off of Securities Industry and Financial Markets Association (SIFMA) Index, formerly known as Bond Market Association (BMA) Index)

Period Covered	Caps Notional Amount	Caps Average Base Rate
	(dollars in thousands)	
08/01/07-02/01/08	$266,558	5.83%
02/01/08-02/01/09	219,310	5.97
02/01/09-02/01/10	158,000	6.07
02/01/10-02/01/11	10,800	6.96

The tax-exempt caps expressed above mainly represent protection that was purchased in conjunction with lender hedging requirements that require the borrower to protect against significant fluctuations in interest rates. Outside of such requirements, we generally do not hedge tax-exempt debt because, since 1990, the base rate of this type of financing has averaged 3.08% and has never exceeded 7.90%.

For anticipated fixed-rate financings, the interest rate hedges summarized in the tables above were purchased to mitigate variable interest rate risk. We entered into various forward swaps to protect ourselves against fluctuations in the 10-year swap rate. At the time we secure and lock an interest rate on an anticipated financing, it is our intention to simultaneously terminate the forward swap associated with that financing. The table below lists the 10-year forward swaps outstanding as of July 31, 2007 (in thousands):

Forward Swaps

Expirations for Years Ending January 31,	Fully Consolidated Properties Notional[(1)] Amount	Fully Consolidated Properties Rate	Property Accounted for under the Equity Method of Accounting Notional[(2)] Amount	Property Accounted for under the Equity Method of Accounting Rate
2008	$258,920	5.76%	$	
2009	$		$	
2010	$ 91,625	5.72%	$120,000	5.93%
Thereafter	$		$	

(1) As these 10-year forward swaps have been designated and qualified as cash flow hedges under SFAS No. 133, Accounting for Derivative

Instruments and Hedging Activities (SFAS No. 133), our portion of unrealized gains and losses on the effective portion of the hedges has been recorded in accumulated OCI. To the extent effective, the receipt or payment of cash at termination on these forward swaps will be recorded in accumulated OCI and will be amortized as either an increase or decrease to interest expense in the same periods as the interest payments on the financing.

(2) This forward swap does not qualify as a cash flow hedge under the provisions of SFAS No. 133 because it relates to an unconsolidated property. Therefore, the change in the fair value of this swap must be marked to market through

earnings on a
quarterly basis.

For the three and six months ended July 31, 2007, we recorded $2,897,000 and $1,450,000, respectively, as a reduction of interest expense related to our 10-year forward swaps in our Consolidated Statements of Earnings, which represents the increase in fair value of the swap that did not qualify for hedge accounting. For the three and six months ended July 31, 2006, we recorded $6,370,000 of interest expense related to our 10-year forward swaps in our Consolidated Statements of Earnings, which represents the decrease in fair value of the four swaps that did not qualify for hedge accounting.

Including the effect of the protection provided by the interest rate swaps, caps and long-term contracts in place as of July 31, 2007, a 100 basis point increase in taxable interest rates (including properties accounted for under the equity method and corporate debt) would increase the annual pre-tax interest cost for the next 12 months of our variable-rate debt by approximately $6,028,000 at July 31, 2007. Although tax-exempt rates generally move in an amount that is smaller than corresponding changes in taxable interest rates, a 100 basis point increase in tax-exempt rates (including properties accounted for under the equity method and corporate debt) would increase the annual pre-tax interest cost for the next 12 months of our tax-exempt variable-rate debt by approximately $8,835,000 at July 31, 2007. The analysis above includes a portion of our taxable and tax-exempt variable-rate debt related to construction loans for which the interest expense is capitalized.

From time to time we and/or certain of our joint ventures (the Joint Ventures) enter into total rate of return swaps (TRS) on various tax-exempt fixed-rate borrowings generally held by us and/or within the Joint Ventures. The TRS convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower the cost of capital. In exchange for a fixed rate, the TRS require that we and/or the Joint Ventures pay a variable rate, generally equivalent to the SIFMA rate. Additionally, we and/or the Joint Ventures have guaranteed the principal balance of the underlying borrowing. Any fluctuation in the value of the guarantee would be offset by the fluctuation in the value of the underlying borrowing, resulting in no financial impact to us or the Joint Ventures. At July 31, 2007, the aggregate notional amount of TRS in which we and the Joint Ventures have an interest is approximately $308,801,000. The fair value of such contracts is immaterial at July 31, 2007 and January 31, 2007. We believe the economic return and related risk associated with a TRS is generally comparable to that of nonrecourse variable-rate mortgage debt.

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Cash Flows

Operating Activities

Net cash provided by operating activities was $48,938,000 for the six months ended July 31, 2007. Net cash provided by operating activities was $129,905,000 for the six months ended July 31, 2006. The decrease in net cash provided by operating activities in the six months ended July 31, 2007 compared to the six months ended July 31, 2006 of $80,967,000 is the result of the following (in thousands):

Increase in rents and other revenues received	$ 20,646
Decrease in interest and other income received	(1,747)
Decrease in cash distributions from unconsolidated entities	(7,824)
Decrease in proceeds from land sales Land Development Group	(23,252)
Decrease in proceeds from land sales Commercial Group	(14,857)
Decrease in land development expenditures	32,392
Increase in operating expenditures	(80,752)
Increase in interest paid	(5,573)
Net decrease in cash provided by operating activities	$ (80,967)

Investing Activities

Net cash used in investing activities was $564,541,000 and $471,183,000 for the six months ended July 31, 2007 and 2006, respectively.

The net cash used in investing activities consisted of the following:

	Six Months Ended July 31,	
	2007	2006
	(in thousands)	
Capital expenditures*	**$ (729,643)**	$ (363,952)
Payment of lease procurement costs and other assets	**(16,628)**	(14,082)
(Increase) decrease in restricted cash used for capital expenditures and other investing activities:		
Forest Trace, a supported-living community in Lauderhill, Florida	**(50,830)**	
Victoria Gardens, a retail center in Rancho Cucamonga, California	**19,509**	(18,290)
Atlantic Yards, a commercial development project in Brooklyn, New York	**419**	8,726
Investment in a development opportunity in Ardsley, New York		(15,000)
Simi Valley Town Center, a retail center in Simi Valley, California		(6,609)
Sale proceeds released from escrow for current acquisitions or (placed in) escrow for future acquisitions:		
Mount Vernon Square, an apartment complex in Alexandria, Virginia	**51,943**	(6,288)
Battery Park City, a specialty retail center in Manhattan, New York	**25,125**	
Six *Sterling Glen* supported-living communities	**(111,089)**	
Hilton Times Square, a hotel in Manhattan, New York, which were released in the third quarter of 2006		(110,104)
Providence at Palm Harbor, an apartment complex in Tampa, Florida, which were released in the fourth quarter of 2006		(7,250)
Other	**(7,556)**	(8,154)

Subtotal	**$ (72,479)**	$(162,969)
Proceeds from disposition of rental properties and a development project:		
Six *Sterling Glen* supported-living communities	**$ 188,499**	$
Landings of Brentwood, an apartment complex in Nashville, Tennessee	**67,756**	
Sterling Glen of Roslyn, a development project in Roslyn, New York	**34,717**	
Hilton Times Square, a hotel in Manhattan, New York		120,400
Providence at Palm Harbor, an apartment complex in Tampa, Florida		7,250
G Street, a retail center in Philadelphia, Pennsylvania		805
Other	**579**	
Subtotal	**$ 291,551**	$ 128,455

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Investing Activities (continued)

	Six Months Ended July 31,	
	2007	2006
	(in thousands)	
(Increase) decrease in investments in and advances to affiliates:		
Land Development:		
Mesa De Sol, an unconsolidated project in Covington, New Mexico	**$ (6,498)**	$ (12,189)
Residential Projects:		
Fort Lincoln III & IV, primarily refinancning proceeds from an unconsolidated apartment complex in Washington, D.C.	**5,152**	
Mercury, an unconsolidated condominium development project in Los Angeles, California	**(3,069)**	(2,914)
Met Lofts, an unconsolidated apartment complex in Los Angeles, California	**(1,337)**	
Air Force Academy, an unconsolidated military housing project in Colorado Springs, Colorado	**(1,900)**	
Uptown Apartments, an unconsolidated apartment complex under construction in Oakland, California	**2,007**	(6,904)
1100 Wilshire, an unconsolidated condominium development project in Los Angeles, California		(1,268)
Cobblestone Court, an unconsolidated apartment complex in Painesville, Ohio		(1,967)
New York City Projects:		
East River Plaza, an unconsolidated development project in Manhattan, New York	**(1,048)**	(5,612)
The Nets, a National Basketball Association franchise	**(25,083)**	
Sports arena complex and related development projects in Brooklyn, New York	**1,123**	(6,240)
Commercial Projects:		
Bulletin Building, primarily refinancing proceeds from an unconsolidated office building in San Francisco, California	**8,648**	
San Francisco Centre-Emporium, primarily refinancing proceeds from an unconsolidated regional mall in San Francisco, California	**15,804**	(1,251)
Village at Gulfstream Park, an unconsolidated retail development project in Hallendale, Florida	**(2,611)**	
Waterfront, an unconsolidated mixed-use development project in Washington, D.C.	**(25,200)**	
Wiregrass Ranch, an unconsolidated retail development project in Tampa, Florida	**(3,053)**	(1,048)
Metreon, an unconsolidated retail commercial acquisition in San Francisco, California		(20,000)
Dispositions:		
Midtown Plaza, an unconsolidated retail center in Parma, Ohio		6,944
Other net (advances) returns of investment of equity method investments and other advances to affiliates	**(277)**	(6,186)
Subtotal	**$ (37,342)**	$ (58,635)
Net cash used in investing activities	**$ (564,541)**	$ (471,183)

*Capital expenditures were financed as follows:

New nonrecourse mortgage indebtedness	**$ 341,944**	$ 164,370
Proceeds from disposition of rental properties and a development project including release of investing escrows (see above)	**257,530**	
Cash provided by operating activities	**48,938**	129,905
Portion of cash on hand at the beginning of the year	**81,231**	69,677
Total Capital Expenditures	**$ 729,643**	$ 363,952

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Financing Activities

Net cash provided by financing activities was $499,651,000 and $241,224,000 for the six months ended July 31, 2007 and 2006, respectively.

Net cash provided by financing activities consisted of the following:

	Six Months Ended July 31,	
	2007	2006
	(in thousands)	
Borrowings on bank revolving credit facility	**$ 409,000**	$ 139,000
Payments on bank revolving credit facility	**(174,000)**	(82,500)
Proceeds from nonrecourse mortgage debt	**573,734**	414,496
Principal payments on nonrecourse mortgage debt	**(284,154)**	(243,406)
Net increase (decrease) in notes payable	**15,169**	(23,372)
(Increase) decrease in restricted cash:		
Uptown Apartments, a residential project under construction in Oakland, California		19,562
Stapleton, a mixed-use development project in Denver, Colorado	**6,000**	(2,065)
Sterling Glen of Roslyn, a supported-living community under construction in Roslyn, New York, sold in July 2007	**2,781**	13,078
Sky55, an apartment complex in Chicago, Illinois	**3,207**	5,153
1251 S. Michigan, an apartment complex in Chicago, Illinois	**1,642**	4,910
Edgeworth Building, an office building in Richmond, Virginia	**1,015**	(2,250)
Lucky Strike, an apartment complex in Richmond, Virginia	**(5,295)**	
Sterling Glen of Ryebrook, a supported-living community in Ryebrook, New York	**(4,000)**	
Chase Financial Tower, an office building in Cleveland, Ohio		7,663
Lenox Park, an apartment complex in Silver Spring, Maryland		3,697
Other	**(2,661)**	(1,063)
(Decrease) increase in book overdrafts, representing checks issued but not yet paid	**(6,277)**	18,701
Payment of deferred financing costs	**(7,849)**	(9,429)
Purchase of treasury stock	**(3,138)**	(826)
Exercise of stock options	**5,028**	1,575
Distribution of accumulated equity to minority partners	**(13,243)**	
Dividends paid to shareholders	**(14,341)**	(12,235)
Decrease in minority interest	**(2,967)**	(9,465)
Net cash provided by financing activities	**$ 499,651**	$ 241,224

LEGAL PROCEEDINGS

We are involved in various claims and lawsuits incidental to our business, and management and legal counsel believe that these claims and lawsuits will not have a material adverse effect on our consolidated financial statements.

DIVIDENDS

We pay quarterly cash dividends on shares of Class A and Class B common stock. The first quarterly dividend of $.07 per share on both Class A and Class B common stock was declared on March 22, 2007 and was paid on June 15, 2007 to shareholders of record at the close of business on June 1, 2007. The second quarterly cash dividend of $.08 per share (representing a 14.0% increase over the first quarter s dividend) on both Class A and Class B common stock was declared on June 21, 2007 and will be paid on September 18, 2007 to shareholders of record at the close of business

on September 4, 2007. The third quarterly dividend is expected to be declared at the quarterly Board Meeting on September 26, 2007.

NEW ACCOUNTING STANDARDS

On August 31, 2007, the Financial Accounting Standards Board (FASB) issued proposed FASB Staff Position (FSP) No. APB 14-a Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) that, if issued, would require the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. If issued in its current form, the proposed FSP would require that the initial debt proceeds from the sale of a company s convertible debt instrument be allocated between a liability component and an equity component. The resulting debt discount would be amortized over the debt instrument s expected life as additional interest expense. The proposed FSP is expected to be effective for fiscal years beginning after December 15, 2007 and is expected to require retrospective application. The Company is currently assessing the impact this proposed FSP will have on its consolidated financial statements.

In June 2007, the FASB ratified the consensus on the Emerging Issues Task Force (EITF) Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF No. 06-11). The provisions of EITF No. 06-11 require companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings under SFAS No. 123(R) as an increase to additional paid-in capital. The EITF is effective for fiscal years beginning after December 15, 2007. The adoption of EITF No. 06-11 is not expected to have a material impact on our consolidated financial statements.

In March 2007, the FASB ratified the consensus on EITF Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance (EITF No. 06-10). Under the provisions of EITF No. 06-10, an employer is required to recognize a liability for the post-retirement benefit related to collateral assignment split-dollar life insurance arrangements. In addition, the EITF provides guidance for the recognition of an asset related to a collateral assignment split-dollar life insurance arrangement. The EITF is effective for fiscal years beginning after December 15, 2007. We are currently assessing the impact EITF No. 06-10 will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits a company to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities, with changes in fair value recognized as they occur. SFAS No. 159 permits the fair value option on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact SFAS No. 159, if adopted, will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about the use of fair value measurements. SFAS No. 157 does not require new fair value measurements, but applies to accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact SFAS No. 157 will have on our consolidated financial statements.

VARIABLE INTEREST ENTITIES

As of July 31, 2007, we determined that we are the primary beneficiary under FIN No. 46(R) of 30 VIEs representing 18 properties (18 VIEs representing 8 properties in Residential Group, 10 VIEs representing 8 properties in Commercial Group, and 2 VIEs/properties in Land Development Group). As of July 31, 2007, we held variable interests in 42 VIEs for which we are not the primary beneficiary. As of July 31, 2007, the maximum exposure to loss as a result of our involvement with these unconsolidated VIEs is limited to our recorded investments in those VIEs totaling approximately $122,000,000. Our VIEs consist of joint ventures that are engaged, directly or indirectly, in the ownership, development and management of office buildings, regional malls, specialty retail centers, apartment communities, military housing, supported-living communities, land development and a professional sports team.

In addition to the VIEs described above, we have also determined that we are the primary beneficiary of a VIE which holds collateralized borrowings of $29,000,000 (Senior and Subordinated Debt) as of July 31, 2007.

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INFORMATION RELATED TO FORWARD-LOOKING STATEMENTS

This Form 10-Q, together with other statements and information publicly disseminated by us, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements reflect management s current views with respect to financial results related to future events and are based on assumptions and expectations which may not be realized and are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial or otherwise, may differ from the results discussed in the forward-looking statements. Risk factors discussed in Item 1A of our Form 10-K for the year ended January 31, 2007 and other factors that might cause differences, some of which could be material, include, but are not limited to, general real estate development and investment risks including lack of satisfactory financing, construction and lease-up delays and cost overruns, the effect of economic and market conditions on a nationwide basis as well as in our primary markets, downturns in the housing market, competition, illiquidity of real estate investments, bankruptcy or insolvency of tenants, dependence on rental income from real property, reliance on major tenants, the impact of terrorist acts, our substantial debt leverage and the ability to obtain and service debt, the impact of restrictions imposed by our credit facility, the level and volatility of interest rates, the continued availability of tax-exempt government financing, conflicts of interest, risks associated with developing and managing properties in partnership with others, effects of uninsured losses, environmental liabilities, risks associated with an investment in and operation of a professional sports franchise, the ability to maintain effective internal controls, compliance with governmental regulations, litigation risks, as well as other risks listed from time to time in our reports filed with the United States Securities and Exchange Commission. We have no obligation to revise or update any forward-looking statements, other than imposed by law, as a result of future events or new information. Readers are cautioned not to place undue reliance on such forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is interest rate risk. At July 31, 2007, our outstanding variable-rate debt portfolio consisted of $1,266,457,000 of taxable debt (which includes $235,000,000 related to the bank revolving credit facility) and $683,224,000 of tax-exempt variable-rate debt (which includes $20,400,000 of subordinated debt). Upon opening and achieving stabilized operations, we generally pursue long-term fixed-rate nonrecourse financing for our rental properties. Additionally, when the properties fixed-rate debt matures, the maturing amounts are subject to interest rate risk.

To mitigate short-term variable interest rate risk, we have purchased interest rate hedges for our variable-rate debt as follows:

Taxable (Priced off of London Interbank Offered Rate (LIBOR) Index)

	Caps		**Swaps[1]**	
Period Covered	**Notional Amount**	**Average Base Rate**	**Notional Amount**	**Average Base Rate**
	(dollars in thousands)			
08/01/07-02/01/08 [2]	$1,037,362	6.51%	$350,289	4.72%
02/01/08-02/01/09	1,056,089	7.19	689,690	5.43
02/01/09-02/01/10	391,413	5.43	688,432	5.43
02/01/10-02/01/11	73,500	5.00	687,081	5.44

(1) Excludes the 10-year forward swaps discussed below.

(2) These LIBOR-based hedges as of August 1, 2007 protect the debt currently outstanding as well as the anticipated increase in debt outstanding for projects under development or anticipated to be under development during the year ending January 31, 2008.

Tax Exempt (Priced off of Securities Industry and Financial Markets Association (SIFMA) Index, formerly known as Bond Market Association (BMA) Index)

Period Covered	Caps Notional Amount	Caps Average Base Rate
	(dollars in thousands)	
08/01/07-02/01/08	$266,558	5.83%
02/01/08-02/01/09	219,310	5.97
02/01/09-02/01/10	158,000	6.07
02/01/10-02/01/11	10,800	6.96

The tax-exempt caps expressed above mainly represent protection that was purchased in conjunction with lender hedging requirements that require the borrower to protect against significant fluctuations in interest rates. Outside of such requirements, we generally do not hedge tax-exempt debt because, since 1990, the base rate of this type of financing has averaged 3.08% and has never exceeded 7.90%.

For anticipated fixed rate financings, the interest rate hedges summarized in the tables above were purchased to mitigate variable interest rate risk. We entered into various forward swaps to protect ourselves against fluctuations in the 10-year swap rate. At the time we secure and lock an interest rate on an anticipated financing, it is our intention to simultaneously terminate the forward swap associated with that financing. The table below lists the 10-year forward swaps outstanding as of July 31, 2007 (in thousands):

Forward Swaps

Expirations for Years Ending January 31,	Fully Consolidated Properties Notional[(1)] Amount	Fully Consolidated Properties Rate	Property Accounted for under the Equity Method of Accounting Notional[(2)] Amount	Property Accounted for under the Equity Method of Accounting Rate
2008	$258,920	5.76%	$	
2009	$		$	
2010	$ 91,625	5.72%	$120,000	5.93%
Thereafter	$		$	

(1) As these 10-year forward swaps have been designated and qualified as cash flow hedges under SFAS No. 133, our portion of unrealized gains and losses on the effective portion of the hedges has been recorded in

accumulated OCI. To the extent effective, the receipt or payment of cash at termination on these forward swaps will be recorded in accumulated OCI and will be amortized as either an increase or decrease to interest expense in the same periods as the interest payments on the financing.

(2) This forward swap does not qualify as a cash flow hedge under the provisions of SFAS No. 133 because it relates to an unconsolidated property. Therefore, the change in the fair value of this swap must be marked to market through earnings on a quarterly basis.

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For the three and six months ended July 31, 2007, we recorded $2,897,000 and $1,450,000, respectively, as a reduction of interest expense related to our 10-year forward swaps in our Consolidated Statements of Earnings, which represents the increase in fair value of the swap that did not qualify for hedge accounting. For the three and six months ended July 31, 2006, we recorded $6,370,000 of interest expense related to our 10-year forward swaps in our Consolidated Statements of Earnings, which represents the decrease in fair value of the four swaps that did not qualify for hedge accounting.

We estimate the fair value of our hedging instruments based on interest rate market pricing models. At July 31 and January 31, 2007, interest rate caps and swaptions were reported at fair value of approximately $2,608,000 and $2,372,000, respectively, in other assets in the Consolidated Balance Sheets. At July 31 and January 31, 2007, interest rate swap agreements, which had a negative fair value of approximately $17,969,000 and $21,961,000, respectively, (which includes the 10-year forward swaps) were included in accounts payable and accrued expenses in the Consolidated Balance Sheets. At July 31 and January 31, 2007, interest rate swap agreements, which had a positive fair value of approximately $3,878,000 and $6,059,000, respectively, were included in other assets in the Consolidated Balance Sheets. Included in the fair value of the interest rate swap agreements at January 31, 2007, is a TRS held by Stapleton Land, LLC. Stapleton Land, LLC does not hold the underlying borrowings on this TRS and the change in the fair value is marked to market through earnings. The TRS matured during the six months ended July 31, 2007. The fair value of the TRS at January 31, 2007 was approximately $255,000.

We estimate the fair value of our debt instruments by market rates, if available, or by discounting future cash payments at interest rates that approximate the current market. Based on these parameters, the carrying amount of our total fixed-rate debt at July 31, 2007 was $4,724,583,000 compared to an estimated fair value of $4,635,578,000. We estimate that a 100 basis point decrease in market interest rates would change the fair value of this fixed-rate debt to approximately $4,902,857,000 at July 31, 2007.

The following tables provide information about our financial instruments that are sensitive to changes in interest rates.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
July 31, 2007

	Expected Maturity Date Year Ending January 31,							
Long-Term Debt	**2008**	**2009**	**2010**	**2011**	**2012**	**Period Thereafter**	**Total Outstanding 7/31/2007**	**Fair Market Value 7/31/2007**
				(dollars in thousands)				
Fixed:								
Fixed-rate debt	$106,344	$ 73,319	$328,819	$174,277	$361,495	$2,813,829	$3,858,083	$3,769,637
Weighted average interest rate	6.75%	6.53%	6.92%	6.81%	7.11%	5.76%	6.08%	
Senior & subordinated debt [1]					287,500	579,000	866,500	865,941 [2]
Weighted average interest rate					3.63%	7.30%	6.08%	
Total Fixed-Rate Debt	106,344	73,319	328,819	174,277	648,995	3,392,829	4,724,583	4,635,578
Variable:								
Variable-rate debt	358,376	525,467	37,027	48,258	3,137	59,192	1,031,457	1,031,457
Weighted average interest rate	7.07%	7.03%	7.19%	5.77%	5.75%	5.56%	6.90%	
Tax-exempt	146,970	45,400	124,435	87,486	26,509	232,024	662,824	662,824
Weighted average interest rate	4.83%	4.06%	4.17%	4.24%	4.16%	4.67%	4.49%	
Bank revolving credit facility [1]				235,000			235,000	235,000
Weighted average interest rate				6.82%			6.82%	
Subordinated debt [1]		20,400					20,400	20,400
Weighted average interest rate		4.51%					4.51%	
Total Variable-Rate Debt	505,346	591,267	161,462	370,744	29,646	291,216	1,949,681	1,949,681

Total Long-Term Debt	$611,690	$664,586	$490,281	$545,021	$678,641	$3,684,045	$6,674,264	$6,585,259
Weighted average interest rate	6.47%	6.70%	6.25%	6.31%	5.51%	5.93%	6.07%	

(1) Represents recourse debt.

(2) Includes the equity portion of the 3.625% puttable equity-linked senior notes that is tied to our stock price.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk (continued)
January 31, 2007

Long-Term Debt	Expected Maturity Date Year Ending January 31, 2008	2009	2010	2011	2012	Period Thereafter	Total Outstanding 1/31/2007	Fair Market Value 1/31/2007
				(dollars in thousands)				
Fixed:								
Fixed-rate debt	$161,725	$104,983	$371,240	$207,294	$360,269	$2,524,856	$3,730,367	$3,702,515
Weighted average interest rate	6.78%	6.65%	7.09%	7.03%	7.12%	5.77%	6.17%	
Senior & subordinated debt (1)					287,500	579,000	866,500	872,650
Weighted average interest rate					3.63%	7.30%	6.08%	
Total Fixed-Rate Debt	161,725	104,983	371,240	207,294	647,769	3,103,856	4,596,867	4,575,165
Variable:								
Variable-rate debt	448,545	302,878	8,184	48,258	3,123	59,143	870,131	870,131
Weighted average interest rate	7.39%	6.68%	6.01%	5.26%	5.29%	5.01%	6.84%	
Tax-exempt	191,609	61,565	206,335	31,530	14,810	232,025	737,874	737,874
Weighted average interest rate	4.70%	4.50%	4.23%	4.47%	4.16%	4.66%	4.52%	
Bank revolving credit facility (1)								
Weighted average interest rate								
Subordinated debt (1)		20,400					20,400	20,400
Weighted average interest rate		4.51%					4.51%	
Total Variable-Rate Debt	640,154	384,843	214,519	79,788	17,933	291,168	1,628,405	1,628,405

Total Long-Term Debt	$801,879	$489,826	$585,759	$287,082	$665,702	$3,395,024	$6,225,272	$6,203,570
Weighted average interest rate	6.62%	6.31%	6.07%	6.45%	5.54%	5.95%	6.05%	

(1) Represents recourse debt.

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Item 4. Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or furnishes under the Securities Exchange Act of 1934 (Securities Exchange Act) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. In addition, the Company s disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or furnishes under the Securities Exchange Act is accumulated and communicated to the Company s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. As of the end of the period covered by this quarterly report, an evaluation of the effectiveness of the Company s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, was carried out under the supervision and with the participation of the Company s management, which includes the CEO and CFO. Based on that evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures were effective as of July 31, 2007.

There have been no changes in the Company s internal control over financial reporting that occurred during the quarter ended July 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

The Company continues to review and document its disclosure controls and procedures and its internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and ensuring that the Company s systems evolve with the business.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various claims and lawsuits incidental to its business, and management and legal counsel believe that these claims and lawsuits will not have a material adverse effect on the Company s consolidated financial statements.

Item 4. Submission of Matters to a Vote of Security-Holders

On June 21, 2007, the Company held its annual meeting of shareholders. At that meeting the shareholders elected four directors by holders of Class A Common Stock and ten directors by holders of Class B Common Stock, each to hold office until the next annual shareholders meeting and until a successor is elected and qualified; and ratified PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the fiscal year ending January 31, 2008.

It was reported that 70,199,645 shares of Class A Common Stock representing 70,199,645 votes and 24,812,840 shares of Class B Common Stock representing 248,128,400 votes were represented in person or by proxy and that these shares represented a quorum. The votes cast for the aforementioned matters were as follows:

	For	Withheld
(1) Election of the following nominated directors by Class A shareholders		
Michael P. Esposito, Jr.	68,808,737	1,390,908
Joan K. Shafran	56,593,741	13,605,904
Louis Stokes	69,084,728	1,114,917
Stan Ross	69,098,214	1,101,431
(2) Election of the following nominated directors by Class B shareholders		
Albert B. Ratner	246,746,410	1,381,990
Samuel H. Miller	246,747,730	1,380,670
Charles A. Ratner	246,749,410	1,378,990
James A. Ratner	246,747,730	1,380,670
Jerry V. Jarrett	247,236,450	891,950
Ronald A. Ratner	246,746,410	1,381,990
Scott S. Cowen	248,111,450	16,950
Brian J. Ratner	246,747,730	1,380,670
Deborah Ratner Salzberg	246,747,730	1,380,670
Bruce C. Ratner	246,747,730	1,380,670

(3) The ratification of PricewaterhouseCoopers LLP as independent registered public accounting firm for the Company was adopted with 318,152,664 votes for, 80,447 votes against and 94,932 votes abstaining [a].

(a) The affirmative vote of the holders of a majority of the combined voting power of the outstanding shares of Class A Common Stock

and Class B Common Stock of the Company present or represented at the meeting was required for ratification. Abstentions were counted as cast with respect to such proposal and had the same effect as votes against the proposal.

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Item 6. Exhibits

Exhibit Number		Description of Document
3.1	-	Amended Articles of Incorporation adopted as of October 11, 1983, incorporated by reference to Exhibit 3.1 to the Company s Form 10-Q for the quarter ended October 31, 1983 (File No. 1-4372).
3.2	-	Certificate of Amendment by Shareholders to the Articles of Incorporation of Forest City Enterprises, Inc. dated June 24, 1997, incorporated by reference to Exhibit 4.14 to the Company s Registration Statement on Form S-3 (Registration No. 333-41437).
3.3	-	Certificate of Amendment by Shareholders to the Articles of Incorporation of Forest City Enterprises, Inc. dated June 16, 1998, incorporated by reference to Exhibit 4.3 to the Company s Registration Statement on Form S-8 (Registration No. 333-61925).
3.4	-	Certificate of Amendment by Shareholders to the Articles of Incorporation of Forest City Enterprises, Inc., effective as of June 20, 2006, incorporated by reference to Exhibit 3.6 to the Company s Form 10-Q for the quarter ended July 31, 2006 (File No. 1-4372).
3.5	-	Code of Regulations as amended June 15, 2006, incorporated by reference to Exhibit 3.5 to the Company s Form 10-Q for the quarter ended July 31, 2006 (File No. 1-4372).
4.1	-	Form of Senior Subordinated Indenture between the Company and National City Bank, as Trustee thereunder, incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-3 (Registration No. 333-22695).
4.2	-	Form of Junior Subordinated Indenture between the Company and National City Bank, as Trustee thereunder, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-3 (Registration No. 333-22695).
4.3	-	Senior Note Indenture, dated as of May 19, 2003, between Forest City Enterprises, Inc., as issuer, and The Bank of New York, as trustee, incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on May 20, 2003 (File No. 1-4372).
4.4	-	Form of 7.375% Senior Note due 2034, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form 8-K filed on February 10, 2004 (File No. 1-4372).
4.5	-	Form of 6.5% Senior Note due 2017, incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form 8-K filed on January 26, 2005 (File No. 1-4372).
4.6	-	Indenture, dated as of October 10, 2006, between Forest City Enterprises, Inc., as issuer, and The Bank of New York Trust Company, N.A., as trustee, including, as Exhibit A thereto, the Form of 3.625% Puttable Equity-Linked Senior Note due 2011, incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on October 16, 2006 (File No. 1-4372).
+10.1	-	

		Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Deborah Ratner-Salzberg and Forest City Enterprises, Inc., insuring the lives of Albert Ratner and Audrey Ratner, dated June 26, 1996, incorporated by reference to Exhibit 10.19 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.2	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Brian J. Ratner and Forest City Enterprises, Inc., insuring the lives of Albert Ratner and Audrey Ratner, dated June 26, 1996, incorporated by reference to Exhibit 10.20 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.3	-	Letter Supplement to Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Brian J. Ratner and Forest City Enterprises, Inc., insuring the lives of Albert Ratner and Audrey Ratner, effective June 26, 1996, incorporated by reference to Exhibit 10.21 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

Exhibit Number		Description of Document
+10.4	-	Letter Supplement to Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Deborah Ratner-Salzberg and Forest City Enterprises, Inc., insuring the lives of Albert Ratner and Audrey Ratner, effective June 26, 1996, incorporated by reference to Exhibit 10.22 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.5	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1992 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the lives of Charles Ratner and Ilana Horowitz (Ratner), dated November 2, 1996, incorporated by reference to Exhibit 10.23 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.6	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1989 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.24 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.7	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Max Ratner 1988 Grandchildren s Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.25 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.8	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Max Ratner 1988 Grandchildren s Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.26 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.9	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Max Ratner 1988 Grandchildren s Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.27 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.10	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Max Ratner 1988 Grandchildren s Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.28 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.11	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1989 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24,

		1996, incorporated by reference to Exhibit 10.29 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.12	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1989 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.30 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.13	-	Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between Albert B. Ratner and James Ratner, Trustees under the Charles Ratner 1989 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the life of Charles Ratner, dated October 24, 1996, incorporated by reference to Exhibit 10.31 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.14	-	Letter Supplement to Split Dollar Insurance Agreement and Assignment of Life Insurance Policy as Collateral between James Ratner and Albert Ratner, Trustees under the Charles Ratner 1992 Irrevocable Trust Agreement and Forest City Enterprises, Inc., insuring the lives of Charles Ratner and Ilana Ratner, effective November 2, 1996, incorporated by reference to Exhibit 10.32 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.15	-	Supplemental Unfunded Deferred Compensation Plan for Executives, incorporated by reference to Exhibit 10.9 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).

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Exhibit Number		Description of Document
+10.16	-	Amended and Restated Form of Stock Option Agreement, effective as of June 8, 2004, incorporated by reference to Exhibit 10.17 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).
+10.17	-	Amended and Restated Form of Restricted Stock Agreement, effective as of June 8, 2004, incorporated by reference to Exhibit 10.18 to the Company s Form 10-Q for the quarter ended April 30, 2005 (File No. 1-4372).
+10.18	-	Dividend Reinvestment and Stock Purchase Plan, incorporated by reference to Exhibit 10.42 to the Company s Form 10-K for the year ended January 31, 1999 (File No. 1-4372).
+10.19	-	Deferred Compensation Plan for Executives, effective as of January 1, 1999, incorporated by reference to Exhibit 10.43 to the Company s Form 10-K for the year ended January 31, 1999 (File No. 1-4372).
+10.20	-	Deferred Compensation Plan for Nonemployee Directors, effective as of January 1, 1999, incorporated by reference to Exhibit 10.44 to the Company s Form 10-K for the year ended January 31, 1999 (File No. 1-4372).
+10.21	-	First Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective October 1, 1999, incorporated by reference to Exhibit 4.6 to the Company s Registration Statement on Form S-8 (Registration No. 333-38912).
+10.22	-	Second Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective March 10, 2000, incorporated by reference to Exhibit 4.7 to the Company s Registration Statement on Form S-8 (Registration No. 333-38912).
+10.23	-	Third Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective March 12, 2004, incorporated by reference to Exhibit 10.39 to the Company s Form 10-Q for the quarter ended July 31, 2004 (File No. 1-4372).
+10.24	-	Employment Agreement entered into on May 31, 1999, effective January 1, 1999, by the Company and Albert B. Ratner, incorporated by reference to Exhibit 10.47 to the Company s Form 10-Q for the quarter ended July 31, 1999 (File No. 1-4372).
+10.25	-	First Amendment to Employment Agreement effective as of February 28, 2000 between Forest City Enterprises, Inc. and Albert B. Ratner, incorporated by reference to Exhibit 10.45 to the Company s Form 10-K for the year ended January 31, 2000 (File No. 1-4372).
+10.26	-	Employment Agreement entered into on May 31, 1999, effective January 1, 1999, by the Company and Samuel H. Miller, incorporated by reference to Exhibit 10.48 to the Company s Form 10-Q for the quarter ended July 31, 1999 (File No. 1-4372).
+10.27	-	

		Deferred Compensation Agreement between Forest City Enterprises, Inc. and Thomas G. Smith dated December 27, 1995, incorporated by reference to Exhibit 10.33 to the Company s Form 10-K for the year ended January 31, 1997 (File No. 1-4372).
+10.28	-	Employment Agreement (re: death benefits) entered into on May 31, 1999, by the Company and Thomas G. Smith dated December 27, 1995, incorporated by reference to Exhibit 10.49 to the Company s Form 10-Q for the quarter ended October 31, 1999 (File No. 1-4372).
+10.29	-	Summary of Forest City Enterprises, Inc. Management Incentive Plan as adopted in 1997, incorporated by reference to Exhibit 10.51 to the Company s Form 10-Q for the quarter ended July 31, 2001 (File No. 1-4372).
+10.30	-	Summary of Forest City Enterprises, Inc. Long-Term Performance Plan as adopted in 2000, incorporated by reference to Exhibit 10.52 to the Company s Form 10-Q for the quarter ended July 31, 2001 (File No. 1-4372).
10.31	-	Credit Agreement, dated as of March 22, 2004, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.40 to the Company s Form 10-K for the year ended January 31, 2004 (File No. 1-4372).

Exhibit Number		Description of Document
10.32	-	Guaranty of Payment of Debt, dated as of March 22, 2004, by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.41 to the Company s Form 10-K for the year ended January 31, 2004 (File No. 1-4372).
10.33	-	First Amendment to Credit Agreement, dated as of January 19, 2005, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.37 to the Company s Form 10-K for the year ended January 31, 2005 (File No. 1-4372).
10.34	-	First Amendment to Guaranty of Payment of Debt, dated as of January 19, 2005 by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.38 to the Company s Form 10-K for the year ended January 31, 2005 (File No. 1-4372).
+10.35	-	Forest City Enterprises, Inc. Executive Bonus Plan, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on March 30, 2005 (File No. 1-4372).
+10.36	-	Forest City Enterprises, Inc. Board of Directors Compensation Policy, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on March 30, 2005 (File No. 1-4372).
10.37	-	Second Amendment to Credit Agreement, dated as of April 7, 2005, by and among Forest City Rental Properties Corporation, the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.43 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
10.38	-	Second Amendment to Guaranty of Payment of Debt, dated as of April 7, 2005, by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as administrative agent, and National City Bank, as syndication agent, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on April 13, 2005 (File No. 1-4372).
+10.39	-	First Amendment to the Deferred Compensation Plan for Executives, effective as of October 1, 1999, incorporated by reference to Exhibit 10.45 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
+10.40	-	Second Amendment to the Deferred Compensation Plan for Executives, effective as of December 31, 2004, incorporated by reference to Exhibit 10.46 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
+10.41	-	Fourth Amendment to the Deferred Compensation Plan for Nonemployee Directors, effective as of December 31, 2004, incorporated by reference to Exhibit 10.47 to the Company s Form 10-Q for quarter ended April 30, 2005 (File No. 1-4372).
+10.42	-	

		Forest City Enterprises, Inc. Long-Term Incentive Plan, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on June 30, 2005 (File No. 1-4372).
+10.43	-	Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and Charles A. Ratner, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).
+10.44	-	Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and James A. Ratner, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).
+10.45	-	Employment Agreement entered into on July 20, 2005, effective February 1, 2005, by the Company and Ronald A. Ratner, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on July 26, 2005 (File No. 1-4372).

Exhibit Number		Description of Document
+10.46	-	Forest City Enterprises, Inc. 1994 Stock Plan, as Amended and Restated as of June 21, 2005, incorporated by reference to Exhibit A to the Company s Proxy Statement for its Annual Meeting of Shareholders held on June 21, 2005 (File No. 1-4372).
+10.47	-	Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Executives (As Amended and Restated Effective January 1, 2005), incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on December 16, 2005 (File No. 1-4372).
+10.48	-	Forest City Enterprises, Inc. 2005 Deferred Compensation Plan for Nonemployee Directors (As Amended and Restated Effective January 1, 2005), incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on December 16, 2005 (File No. 1-4372).
+10.49	-	Forest City Enterprises, Inc. Unfunded Nonqualified Supplemental Pension Plan for Executives (As Amended and Restated Effective January 1, 2005), incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on December 16, 2005 (File No. 1-4372).
10.50	-	Consent Letter to Credit Agreement and Guaranty of Payment of Debt, dated January 20, 2006 by and among Forest City Enterprises, Inc., the banks named therein, KeyBank National Association, as Administrative Agent, and National City Bank, as Syndication Agent, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on February 24, 2006 (File No. 1-4372).
+10.51	-	Amendment No. 1 to Forest City Enterprises, Inc. 1994 Stock Plan (As Amended and Restated as of June 21, 2005), incorporated by reference to Exhibit 10.53 to the Company s Form 10-K for the year ended January 31, 2006 (File No. 1-4372).
10.52	-	Third Amendment to Credit Agreement, dated as of June 30, 2006, by and among Forest City Rental Properties Corporation, KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, Bank of America, N.A. and LaSalle Bank National Association, as Co-Documentation Agents, and the banks named therein, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on June 30, 2006 (File No. 1-4372).
10.53	-	Third Amendment to Guaranty of Payment of Debt, dated as of June 30, 2006, by and among Forest City Enterprises, Inc., KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, Bank of America, N.A. and LaSalle Bank National Association, as Co-Documentation Agents, and the banks named therein, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on June 30, 2006 (File No. 1-4372).
10.54	-	Master Contribution and Sale Agreement, dated as of August 10, 2006, by and among Forest City Enterprises, Inc., certain entities affiliated with Forest City Enterprises, Inc., Forest City Master Associates III, LLC, certain entities affiliated with Forest City Master Associates III, LLC, certain entities affiliated with Bruce C. Ratner and certain individuals affiliated with Bruce C. Ratner, incorporated by reference to Exhibit 10.54 to the Company s Form 10-Q for the quarter ended July 31, 2006 (File No. 1-4372).

10.55	-	Fourth Amendment to Credit Agreement, dated as of October 3, 2006, by and among Forest City Rental Properties Corporation, KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, and the banks named therein, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on October 10, 2006 (File No. 1-4372).
10.56	-	Fourth Amendment to Guaranty of Payment of Debt, dated as of October 3, 2006, by and among Forest City Enterprises, Inc., KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, and the banks named therein, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on October 10, 2006 (File No. 1-4372).
+10.57	-	Employment Agreement, effective November 9, 2006, by and among Bruce C. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).

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Exhibit Number		Description of Document
+10.58	-	First Amendment to Employment Agreement, dated as of November 9, 2006, by and among Charles A. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).
+10.59	-	First Amendment to Employment Agreement, dated as of November 9, 2006, by and among James A. Ratner and Forest City Enterprises, Inc, incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).
+10.60	-	First Amendment to Employment Agreement, dated as of November 9, 2006, by and among Ronald A. Ratner and Forest City Enterprises, Inc., incorporated by reference to Exhibit 10.4 to the Company s Form 8-K filed on November 13, 2006 (File No. 1-4372).
+10.61	-	Amendment No. 2 to Forest City Enterprises, Inc. 1994 Stock Plan (As Amended and Restated as of June 21, 2005), incorporated by reference to Exhibit 4.8 to the Company s Registration Statement on Form S-8 filed on May 3, 2007 (Registration No. 333-122172).
10.62	-	Amended and Restated Credit Agreement by and among Forest City Rental Properties Corporation, KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, Bank of America, N.A. and LaSalle Bank National Association, as Co-Documentation Agents, and the banks named therein, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on June 12, 2007 (File No. 1-4372).
10.63	-	Amended and Restated Guaranty of Payment of Debt by Forest City Enterprises, Inc. for the benefit of KeyBank National Association, as Administrative Agent, National City Bank, as Syndication Agent, Bank of America, N.A. and LaSalle Bank National Association, as Co-Documentation Agents, and the banks named therein, incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on June 12, 2007 (File No. 1-4372).
*31.1	-	Principal Executive Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	-	Principal Financial Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	-	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Management contract or compensatory arrangement required to be filed as an exhibit to this

Form 10-Q
pursuant to
Item 6.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FOREST CITY ENTERPRISES, INC.
(Registrant)

Date: September 10, 2007	/s/ THOMAS G. SMITH Thomas G. Smith Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)
Date: September 10, 2007	/s/ LINDA M. KANE Linda M. Kane Senior Vice President and Corporate Controller (Principal Accounting Officer)

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Exhibit Index

Exhibit Number		Description of Document
31.1	-	Principal Executive Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	-	Principal Financial Officer s Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	-	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.